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May 17, 1999

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**VIA OVERNIGHT DELIVERY**

K. David Waddell, Executive Director  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37219

Re: In the Matter of the Petition of Hyperion Communications of Tennessee, L.P. for a Certificate of Convenience and Necessity to Provide Facilities-Based and Resold Local Exchange and Resold Interexchange Telecommunications Services Throughout the State of Tennessee - **Responses to Oral Data Requests by Staff Member David Hood on May 13, 1999; Docket No. 98-00732** (filed October 19, 1999)

Dear Mr. Waddell:

Enclosed for filing on behalf of Hyperion Communications of Tennessee, L.P. ("Hyperion") are an original and thirteen (13) copies of HCT's Responses to the Authority's Oral Data Requests. Hyperion respectfully submits this information to assist and expedite the Authority's examination of the application in this matter and remains willing to provide any information that would be useful to the Authority's examination of HCT's application.

Please date stamp the enclosed extra copy of this filing and return it in the self-addressed, postage prepaid envelope provided. Should any questions arise concerning this filing, please do not hesitate to contact us or Ron Del Sesto at (202) 945-6923.

Respectfully submitted,



Dana Frix  
Kemal Hawa

Counsel for Hyperion Communications  
of Tennessee, L.P.

cc: Mr. David Hood  
Mr. Paul Greene  
Ms. Darlene Standley  
Mr. Joe Werner  
Mr. Darrell Whitis

**DOCKET NO. 98-00732**

**Hyperion Communications of Tennessee, L.P. - Responses to David Hood's Oral Data  
Requests of May 13, 1999**

**EXHIBIT 1**

**SEC FORM 10-Q FOR HYPERION TELECOMMUNICATIONS, INC.**

**DOCKET NO. 98-00732**

**Hyperion Communications of Tennessee, L.P. - Responses to David Hood's Oral Data Requests of May 13, 1999**

- 1. Does Hyperion Communications of Tennessee, L.P. ("Hyperion") need to update its prefiled testimony?**

Hyperion's prefiled testimony is not in need of an update.

- 2. Does Hyperion need to update its Managerial and Technical Qualifications?**

Hyperion's Managerial and Technical Qualifications is not in need of an update.

- 3. Does Hyperion need to update its Small and Minority Owned Business Participation Plan?**

Hyperion's Small and Minority Owned Business Participation Plan is complete as filed.

- 4. We are in receipt of Hyperion Telecommunications Inc.'s ("HTI") financial statements dated March 31, 1998. Please provide the Tennessee Regulatory Authority with Hyperion's updated financial statements.**

Attached hereto as Exhibit 1 is a copy of HTI's SEC Form 10-Q for the period ending December 31, 1998. This is the latest available financial information for HTI. Please also see HTI's Annual Report attached hereto as Exhibit 2.

- 5. Please provide more information regarding Hyperion's response to question 1(e) (Provide a narrative of how Hyperion will fund the deployment of its facilities in Tennessee) of the Tennessee Regulatory Authority's Third Set of Data Requests filed on May 5, 1999.**

HTI, through its operating affiliates and subsidiaries, has a proven track record for deploying competitive telecommunications in 20 geographic markets serving 46 cities. This represents over 6,000 route miles of fiber and 17 Lucent 5ESS switches in 11 states. HTI has bought or secured an additional 8,100 route miles of fiber optics. It will use these and more resources in 50 new markets in the Eastern United States, including Tennessee, to operate a fully redundant, self-healing, super-regional fiber network. Despite its aggressive (and costly) deployment of competitive facilities, HTI continues to attract tremendous support from the financial community.

HTI's business plan, which calls for the creation of a new telecommunications network, requires a sizable up-front capital investment. Such investment enables facilities-based providers to provide significant public service benefits for Tennessee consumers and to benefit economically from so doing. Specifically, in utilizing its own facilities, HTI minimizes reliance on incumbent carriers and retains maximum control over network operations, thereby realizing higher margins.

**DOCKET NO. 98-00732**

**Hyperion Communications of Tennessee, L.P. - Responses to David Hood's Oral Data  
Requests of May 13, 1999**

As of September 1998, HTI had installed 77,134 access lines, and is currently installing more than 10,000 lines per month. Many of these lines connect HTI's network to businesses, the type of educated consumer that tends to be savvy in negotiating at arm's length. HTI's initial success as a competitive alternative for these demanding customers is an important testament to the perception of HTI's current and prospective financial qualification. Further, HTI estimates that its current expansion plans will increase the company's nationwide addressable market potential to more than \$40 billion in revenue (or 20 million access lines). This prospect promises to be a natural outgrowth of HTI's business plan, but HTI could not realize such revenues without first incurring the considerable expense of building and deploying its state-of-the-art network.

Clearly, shareholders have faith the HTI will grow and its aggressive deployment of competitive facilities, though costly now, will provide considerable gains for the Company in the future. HTI's Initial Public Offering ("IPO") in May 1998 was a phenomenal success.<sup>1</sup> Acting on the figures in Hyperion's Application (*See also* HTI's Annual Report, Exhibit 2), Wall Street investors boosted HTI's total asset valuation of \$640 million to nearly \$900 million at the time. Investors and others who have had occasion to review HTI's financial position would naturally express concern over the accumulated deficit which was recorded at -\$140,586,000.00 in March 1998. (The 2/10/99 Memo cites this figures.) Yet, in the IPO, future shareholders advanced \$285,000,000.00, showing a confidence in HTI's continued growth. This further is evidenced in a Projected Income Statement developed by Credit Suisse First Boston after the IPO (Please see Exhibit 3). The investment from the IPO has offset total stockholders' equity, which is now positive, increasing from -\$118,991,000 in March, 1998 to \$74,031,000.00 this December (Please see December 31, 1999 Form 10-Q, Exhibit 1). In addition, despite the change in accumulated deficit to -\$217,781,000.00 in December, a current effort to secure additional financing promises to be HTI's largest infusion of case to date. Furthermore, HTI's substantial total current assets, as reflected in the latest 10-Q, clearly demonstrates HTI's commanding financial position including its ability to pay its liabilities in the next year and for years to come - the total current assets are \$264,181,000.00 while total current liabilities are \$39,528,000.00.

Before committing resources for HTI's network, financial investors must feel confident that the company represents a sound opportunity for return and a promising business future. HTI could not have established its current operations without the capital raised in these debt offerings. More importantly, Hyperion respectfully submits that equity investors would be unwilling to risk funds unless they were satisfied that any losses that the company had incurred (particularly the accumulated deficit which Commission Staff has noted) were attendant to normal construction financing and as such unremarkable.

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<sup>1</sup> The IPO was oversubscribed. Would-be investors committed to purchase over five times as much stock as was ultimately sold, but HTI declined to offer that much equity.

**DOCKET NO. 98-00732**

**Hyperion Communications of Tennessee, L.P. - Responses to David Hood's Oral Data Requests of May 13, 1999**

- 6. Please provide more information regarding HTI's projected financial statements.**

Attached hereto as Exhibit 3 is a copy of HTI's financial projections prepared by Credit Suisse First Boston Corporation.

- 7. In Exhibit 4 of Responses to the Third Set of Data Requests filed on May 5, 1999, the Capital Expenditures for Hyperion are listed as \$20 million in 2000. Does Hyperion have a breakdown of the cities in which it plans to spend the \$20 million?**

Hyperion has not yet developed a plan detailing expenditures for specific cities in Tennessee.

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

  X   Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

*For the quarterly period ended December 31, 1998*

       Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from                      to                     

Commission File Number: 000-21605

***HYPERION TELECOMMUNICATIONS, INC.***

(Exact name of registrant as specified in its charter)

<i>Delaware</i>	<i>25-1669404</i>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

<i>Main at Water Street</i>	<i>16915-1141</i>
<i>Coudersport, PA</i>	(Zip code)
(Address of principal executive offices)	

*814-274-9830*

(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes   X   No       

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

At February 12, 1999, 22,391,221 shares of Class A Common Stock, par value \$0.01 per share, and 32,302,641 shares of Class B Common Stock, par value \$0.01 per share, of the registrant were outstanding.

# HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES

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# Item 1. Financial Statements

## HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (Dollars in thousands, except share amounts)

	March 31, 1998	December 31, 1998
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 230,750	\$ 242,570
Due from parent – net	--	4,950
Due from affiliates – net	2,151	1,078
Other current assets	4,434	15,583
Total current assets	<u>237,355</u>	<u>264,181</u>
U.S. government securities – pledged	70,535	58,054
Investments	53,064	112,328
Property, plant and equipment – net	250,633	374,702
Other assets – net	28,425	27,077
Total	<u>\$ 639,992</u>	<u>\$ 836,342</u>
<b>LIABILITIES, PREFERRED STOCK, COMMON STOCK AND OTHER STOCKHOLDERS' EQUITY (DEFICIENCY)</b>		
Current liabilities:		
Accounts payable	\$ 11,775	\$ 20,386
Due to parent – net	6,541	--
Accrued interest and other current liabilities	4,687	19,142
Total current liabilities	<u>23,003</u>	<u>39,528</u>
13% Senior Discount Notes due 2003	215,213	220,784
12 1/4% Senior Secured Notes due 2004	250,000	250,000
Note payable – Adelphia	35,876	--
Other debt	27,687	23,325
Total liabilities	<u>551,779</u>	<u>533,637</u>
12 7/8% Senior exchangeable redeemable preferred stock	<u>207,204</u>	<u>228,674</u>
Commitments and contingencies (Note 3)		
Common stock and other stockholders' equity (deficiency):		
Class A common stock, \$0.01 par value, 300,000,000 shares authorized, 396,500 and 22,376,071 shares outstanding, respectively	4	224
Class B common stock, \$0.01 par value, 150,000,000 shares authorized, 32,500,000 and 32,314,761 shares outstanding, respectively	325	323
Additional paid in capital	179	286,782
Class A common stock warrants	13,000	--
Class B common stock warrants	11,087	4,483
Loans to stockholders	(3,000)	--
Accumulated deficit	(140,586)	(217,781)
Total common stock and other stockholders' equity (deficiency)	<u>(118,991)</u>	<u>74,031</u>
Total	<u>\$ 639,992</u>	<u>\$ 836,342</u>

See notes to condensed consolidated financial statements.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)  
(Amounts in thousands, except per share amounts)

	Three Months Ended December 31,		Nine months Ended December 31,	
	1997	1998	1997	1998
Revenues	\$ 4,983	\$ 15,043	\$ 8,690	\$ 34,776
Operating expenses:				
Network operations	2,657	6,664	5,263	18,709
Selling, general and administrative	3,840	16,518	9,099	35,341
Depreciation and amortization	3,344	10,708	7,027	26,671
Total	<u>9,841</u>	<u>33,890</u>	<u>21,389</u>	<u>80,721</u>
Operating loss	(4,858)	(18,847)	(12,699)	(45,945)
Other income (expense):				
Interest income	5,632	1,829	7,675	10,233
Interest income – affiliate	93	3,576	276	8,395
Interest expense	(16,770)	(12,399)	(35,934)	(38,638)
Other income	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,113</u>
Loss before income taxes and equity in net loss of joint ventures	(15,903)	(25,841)	(40,682)	(64,842)
Income tax expense	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Loss before equity in net loss of joint ventures	(15,903)	(25,841)	(40,682)	(64,842)
Equity in net loss of joint ventures	<u>(2,858)</u>	<u>(3,776)</u>	<u>(9,284)</u>	<u>(9,580)</u>
Loss before extraordinary gain	(18,761)	(29,617)	(49,966)	(74,422)
Extraordinary gain on repurchase of debt	<u>--</u>	<u>--</u>	<u>--</u>	<u>237</u>
Net loss	(18,761)	(29,617)	(49,966)	(74,185)
Dividend requirements applicable to preferred stock	<u>(5,794)</u>	<u>(7,284)</u>	<u>(5,794)</u>	<u>(21,117)</u>
Net loss applicable to common stockholders	<u>\$ (24,555)</u>	<u>\$ (36,901)</u>	<u>\$ (55,760)</u>	<u>\$ (95,302)</u>
Basic and diluted net loss per weighted average share of common stock	<u>\$ (0.70)</u>	<u>\$ (0.66)</u>	<u>\$ (1.60)</u>	<u>\$ (1.80)</u>
Weighted average shares of common stock outstanding	<u>34,890</u>	<u>55,497</u>	<u>34,890</u>	<u>53,035</u>

See notes to condensed consolidated financial statements.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(Dollars in thousands)

	Nine months Ended December 31,	
	1997	1998
Cash flows from operating activities:		
Net loss	\$ (49,966)	\$ (74,185)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	5,269	23,838
Amortization	1,758	2,833
Noncash interest expense	24,680	23,857
Equity in net loss of joint ventures	9,284	9,580
Issuance of Class A common stock bonus	27	761
Extraordinary gain on repurchase of debt	--	(237)
Change in operating assets and liabilities net of effects of acquisitions:		
Other assets - net	(3,646)	(15,533)
Accounts payable	(101)	9,862
Accrued interest and other	11,086	10,414
Net cash used in operating activities	<u>(1,609)</u>	<u>(8,810)</u>
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(34,834)	(146,752)
Investments in joint ventures	(48,574)	(69,018)
Net cash used for acquisitions	(7,638)	--
Investment in U. S. government securities - pledged	(83,400)	--
Sale of U.S. government securities - pledged	--	15,312
Net cash used in investing activities	<u>(174,446)</u>	<u>(200,458)</u>
Cash flows from financing activities:		
Proceeds from issuance of preferred stock	194,733	--
Proceeds from issuance of Class A common stock	--	255,462
Costs associated with issuance of Class A common stock	--	(14,742)
Proceeds from debt	250,000	--
Costs associated with debt financing	(12,496)	--
Repayment of debt	(402)	(19,868)
Proceeds from sale and leaseback of equipment	14,876	--
Advances from (to) related parties	2,393	(2,764)
Repayment of loans to stockholders	--	3,000
Net cash provided by financing activities	<u>449,104</u>	<u>221,088</u>
Increase in cash and cash equivalents	273,049	11,820
Cash and cash equivalents, beginning of period	<u>59,814</u>	<u>230,750</u>
Cash and cash equivalents, end of period	<u>\$ 332,863</u>	<u>\$ 242,570</u>

See notes to condensed consolidated financial statements.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
(Dollars in thousands)

Hyperion Telecommunications, Inc. is a majority owned subsidiary of Adelphia Communications Corporation ("Adelphia"). The accompanying unaudited condensed consolidated financial statements of Hyperion Telecommunications, Inc. and its majority owned subsidiaries ("Hyperion" or the "Company") have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission.

In the opinion of management, all adjustments, consisting of only normal recurring accruals necessary for a fair presentation of Hyperion at December 31, 1998 and the unaudited results of operations for the three and nine months ended December 31, 1997 and 1998, have been included. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements included in its Annual Report on Form 10-K for the fiscal year ended March 31, 1998. The results of operations for the three and nine months ended December 31, 1998, are not necessarily indicative of the results to be expected for the fiscal year ending March 31, 1999.

**1. Significant Events Subsequent to March 31, 1998:**

On May 8, 1998, the Company issued and sold 12,500,000 shares of Class A Common Stock at a price to the public of \$16.00 per share (the "IPO"). Simultaneously with the closing of the IPO, the Company (i) issued and sold an additional 3,324,001 shares of Class A Common Stock to Adelphia at a purchase price of \$15.00 per share (or an aggregate of approximately \$49,900) and (ii) issued 3,642,666 shares of Class A Common Stock to Adelphia in exchange for certain of the Company's indebtedness and payables owed to Adelphia at a purchase price of \$15.00 per share (or an aggregate of \$54,600). In a related transaction, on June 5, 1998, the Company issued and sold 350,000 shares of Class A Common Stock at the \$16.00 IPO price pursuant to the underwriters' over-allotment option in the IPO. These transactions increased the Company's equity by approximately \$285,000, while raising approximately \$241,000 of net proceeds to continue the expansion of the Company's existing markets and to build new markets.

In connection with the IPO, Adelphia purchased all warrants, including any antidilutive provisions, issued to MCImetro Access Transmission Services, Inc. (together with its affiliate, MCI Communications, "MCI") in connection with a previous agreement which designated the Company as MCI's preferred provider of end use dedicated access for all new MCI customers and of end user dedicated access circuits resulting from conversions from incumbent LECs in the Company's markets. Furthermore, in consideration of the obligations undertaken by Adelphia to facilitate the agreements between MCI and the Company, the Company paid to Adelphia a fee of \$500 and issued a warrant to Adelphia to purchase 200,000 shares of Hyperion's Class A Common Stock at an exercise price equal to the IPO price.

Through December 31, 1998, 195,965 Class B warrants were exercised and converted into 1,187,541 shares of Class B Common Stock. Of the 1,187,541 shares issued, 1,172,391 shares had been converted into Class A Common Stock as of December 31, 1998. The Company received \$3 in consideration for the exercise of the Class B warrants.

On May 15, 1998, Lenfest Telephony, Inc. ("Lenfest") exercised its warrant to receive 731,624 shares of Hyperion's Class A Common Stock. The warrant related to the purchase by Hyperion of Lenfest's partnership interest in the Harrisburg, Pennsylvania network on February 12, 1998. The Company received no additional consideration for the exercise of the warrant.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
(Dollars in thousands)

Hyperion has entered into a series of agreements with several local and long-haul fiber optic network providers that will allow the Company to significantly increase its presence in the eastern half of the United States. These agreements, totaling approximately \$126,000, provide the Company with ownership or an indefeasible right of use (IRU) to over 9,000 route miles of local and long-haul fiber optic cable. Through December 31, 1998, the Company has paid \$42,604 of the total due under the agreements, which was included in the property, plant and equipment of the Company. The Company believes this will allow Hyperion to expand its business strategy to include on-net provisioning of regional, local and long distance, internet and data communications and to cost-effectively further interconnect most of its 46 existing markets and to cost effectively enter and interconnect approximately 50 new markets by the end of 2001.

During 1998, through a partnership in which Hyperion is a 49.9% limited partner, the Company was the successful bidder, at a cost of approximately \$45 million, for 195 31-GHz licenses, which cover approximately 83 million POPs in the eastern United States representing coverage in most of its network system territory. Hyperion and its partner are currently in the process of dissolving the partnership and the licenses are to become the property of Hyperion at no additional cost to Hyperion. As of December 31, 1998, the partnership had fully funded its obligation due to the Federal Communications Commission ("FCC"). The Company plan to use the LMDS spectrum in most of its markets, and believe the spectrum to be highly complementary to its fiber-based systems as a economical means to provide "last-mile" connectivity for customers which otherwise could not be economically addressed with broadband connectivity.

LMDS is a fixed broadband point-to-multipoint service which the FCC anticipates will be used for the deployment of wireless local loop, high speed data transfer and video broadcasting services. The Company currently plans to use such spectrum for "last-mile" connectivity in certain of its markets, and believes the spectrum to be highly complementary to its fiber-based systems. The Company is in the process of further refining its plans for utilization of the LMDS spectrum, which could involve substantial additional funds.

On November 4, 1998, the Company entered into purchase agreements with subsidiaries of MediaOne of Colorado, Inc. ("MediaOne"), its local partners in the Jacksonville, FL and Richmond, VA networks, whereby MediaOne will receive approximately \$82,751 in cash for MediaOne's ownership interests in these networks. In addition, the Company will be responsible for the payment of fiber lease liabilities due to MediaOne in the amount of approximately \$14,500 which are generally payable over the next ten years. Upon consummation of this transaction, which is subject to normal closing conditions and receipt of regulatory approvals, the Company's ownership interest in each of these networks will increase to 100%.

On November 10, 1998, the Company and Telergy, Inc. ("Telergy") entered into a binding letter agreement that modified certain provisions of the Senior Secured Note agreement with Telergy and extended the note's maturity from January 20, 1999 to January 20, 2000 in exchange for an IRU or long term lease of certain fiber segments in New York City and along certain of Telergy's long haul fiber segments in the northeastern United States and southeastern Canada. Telergy must deliver such fiber segments within certain agreed upon timelines or be subject to prescribed liquidated damages.

On January 25, 1999, the Company entered into a purchase agreement with Multimedia, Inc. ("Multimedia"), the parent of its local partner in the Wichita, KS market, whereby Multimedia will receive

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
(Dollars in thousands)

approximately \$8,500 in cash for Multimedia's ownership interest in this network. In addition, the Company will be responsible for the payment of fiber lease liabilities due to Multimedia in the amount of approximately \$2,800 which are payable over the next six years. Upon consummation of the transaction, which is subject to normal closing conditions and receipt of regulatory approvals, the Company's ownership in Wichita will increase to 100%.

During the quarter ended September 30, 1998, Hyperion paid \$17,313 to repurchase a portion of the 13% Senior Discount Notes due 2003 which had a face value of \$25,160 and a carrying value of \$17,550. The notes were retired upon repurchase which resulted in a \$237 gain.

The Company has made demand advances to Adelphia which, as of December 31, 1998, had an outstanding balance of \$7,600. The Company received interest on the advances at a rate of 6.3%.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
(Dollars in thousands)

**2. Investments:**

The equity method of accounting is used to account for investments in joint ventures in which the Company holds less than a majority interest. Under this method, the Company's initial investment is recorded at cost and subsequently adjusted for the amount of its equity in the net income or losses of its joint ventures. Dividends or other distributions are recorded as a reduction of the Company's investment. Investments in joint ventures accounted for using the equity method reflect the Company's equity in their underlying net assets.

The Company's nonconsolidated investments are as follows:

	Ownership Percentage	March 31, 1998	December 31, 1998
MediaOne Fiber Technologies (Jacksonville)	20.0%	\$ 7,984	\$ 8,150
Multimedia Hyperion Telecommunications (Wichita)	49.9	3,537	5,863
MediaOne of Virginia (Richmond)	37.0	7,213	7,284
PECO-Hyperion (Philadelphia)	50.0	21,229	33,936
PECO-Hyperion (Allentown, Bethlehem, Easton, Reading)	50.0	2,753	7,227
Hyperion of York	50.0	4,256	5,721
Allegheny Hyperion Telecommunications	50.0	--	3,043
Entergy Hyperion Telecommunications of Louisiana	50.0	3,407	6,714
Entergy Hyperion Telecommunications of Mississippi	50.0	3,666	7,130
Entergy Hyperion Telecommunications of Arkansas	50.0	4,209	7,586
Baker Creek Communications	49.9 (1)	10,009	44,637
Other	Various	1,333	1,323
		<u>69,596</u>	<u>138,614</u>
Cumulative equity in net losses		(16,532)	(26,286)
Total		<u>\$ 53,064</u>	<u>\$ 112,328</u>

- (1) On March 24, 1998, the Federal Communications Commission ("FCC") completed the auction of licenses for LMDS. The Company, through Baker Creek Communications, was the successful bidder for 195 31-GHz licenses, which cover approximately 30% of the nation's population - in excess of 83 million people in the eastern half of the United States. The Company funded \$10,000 of such purchase in January 1998, a portion of which was refunded. In connection with the FCC's full review of all bids and the granting of final licenses it was concluded that the Company, through Baker Creek Communications, would acquire the entire interest in the 195 licenses for a total cost of approximately \$44,605, all of which was paid as of October 26, 1998. See Note 1 of the Condensed Consolidated Financial Statements.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
(Dollars in thousands)

Summarized combined unaudited financial information for the Company's nonconsolidated investments listed above being accounted for using the equity method of accounting as of December 31, 1998 for the periods ended, is as follows:

	March 31, 1998	December 31, 1998
Current assets	\$ 7,476	\$ 11,315
Property, plant and equipment –net	153,495	190,552
Other non-current assets	13,454	47,522
Current liabilities	13,422	18,599
Non-current liabilities	58,004	48,635
	<hr/>	<hr/>
	Nine months ended December 31, 1997	1998
Revenues	7,687	24,986
Net loss	(13,719)	(22,325)

**3. Commitments and Contingencies:**

Reference is made to Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of material commitments and contingencies.

**4. Net Loss Per Weighted Average Share of Common Stock:**

Net loss per weighted average share of common stock is computed based on the weighted average number of common shares outstanding after giving effect to dividend requirements on the Company's preferred stock. Diluted net loss per common share is equal to basic net loss per common share because additional warrants outstanding had an anti-dilutive effect for the periods presented; however, these warrants could have a dilutive effect on earnings per share in the future.

**5. Supplemental Financial Information:**

For the nine months ended December 31, 1998, the Company paid interest of \$15,312. For the nine months ended December 31, 1997, no cash was paid for interest.

Accumulated depreciation of property, plant and equipment amounted to \$14,251 and \$38,089 at March 31, 1998 and December 31, 1998, respectively.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
(Dollars in thousands)

**6. Recent Accounting Pronouncements:**

Statement of Position ("SOP") 98-5, "Reporting on the costs of Start-Up Activities," has been issued and is effective for fiscal years beginning after December 15, 1998. SOP 98-5 provides guidance on the financial reporting of start up costs and organization costs. It requires such costs to be expensed as incurred. Management of the Company believes that SOP 98-5 will not have a material impact on the Company.

**7. Reclassification:**

Certain prior period amounts have been reclassified to conform with the current period presentation.

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HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
(Dollars in thousands)

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis should be read in conjunction with the Company's unaudited Condensed Consolidated Financial Statements and the Notes thereto appearing elsewhere in this Form 10-Q and the Company's audited Consolidated Financial Statements and Notes thereto filed on Form 10-K for the fiscal year ended March 31, 1998.*

*Overview*

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, is forward-looking, such as information relating to the effects of future regulation, future capital commitments and the effects of competition. Such forward-looking information involves important risks and uncertainties that could significantly affect expected results in the future from those expressed in any forward-looking statements made by, or on behalf of, the Company. These risks and uncertainties include, but are not limited to, uncertainties relating to economic conditions, acquisitions and divestitures, government and regulatory policies, the pricing and availability of equipment, materials, and inventories, technological developments, year 2000 issues, actions of competitors and changes in the competitive environment in which the Company operates. Unless otherwise stated, the information contained in this Form 10-Q is as of and for the nine months ended December 31, 1997 and 1998.

The "Company" or "Hyperion" means Hyperion Telecommunications, Inc. together with its majority-owned subsidiaries, except where the context otherwise requires. Unless the context otherwise requires, references herein to the "networks" or the "Company's networks" mean the (a) 22 telecommunications networks (in 46 markets served) in operation or under construction (the "Existing Networks") owned as of December 31, 1998 by 20 Operating Companies (which, as defined herein, are (i) wholly and majority owned subsidiaries of the Company or (ii) joint venture partnerships and corporations managed by the Company and in which the Company holds less than a majority equity interest with one or more other partners) and (b) additional networks under development (the "New Networks") as of such date.

The Company, through its Operating Companies, provides a competitive alternative to the telecommunications services offered by the incumbent local exchange carriers ("LECs") in its markets. The Operating Companies' customers are principally small, medium and large businesses and government and educational end users as well as Interexchange or Long Distance Carriers ("IXCs") and other telecommunications providers.

As of December 31, 1998, the Company's Operating Companies are made up of ten wholly-owned subsidiaries (through which the Company has an interest in 11 networks), one partnership in which it is a majority owner and nine joint venture investments (through which the Company has an interest in ten networks) in which the Company owns 50% or less. Results of the wholly and majority owned subsidiaries and partnerships are consolidated into the Company's financial statements. The Company's pro rata share of the results of the Operating Companies where the Company owns 50% or less are recorded under the caption "Equity in net loss of joint ventures" in the Company's consolidated financial statements and results of operations utilizing the equity method of accounting. Correspondingly, the Company's initial investments in these Operating Companies have been carried at cost, and subsequently have been adjusted for the Company's pro rata share of the Operating Companies' net losses, additional capital contributions to the Operating Companies, and distributions from the Operating Companies to the Company. Hyperion's weighted average ownership in these Operating Companies, adjusted for the pending acquisition of its

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
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partners' interests in the Jacksonville, FL, Richmond, VA and Wichita, KS markets discussed in Recent Developments below, is approximately 90%, based upon gross property, plant and equipment.

The Company initiated its switched services deployment plan in 1997 and currently provides switched services in 20 markets with nine additional regional super switches planned for service in 1999. In the Existing Networks, the Company estimates that there are approximately 13.2 million business access lines in service. With the expansion of the Company's business into the New Networks, the Company anticipates that its total addressable market will exceed \$50 billion annually or 26 million access lines. The Company has experienced initial success in the sale of business access lines with approximately 133,686 access lines sold as of December 31, 1998, of which approximately 110,005 lines are installed. This represents an addition of 39,726 access lines sold and 32,871 access lines installed during the quarter ended December 31, 1998. As of December 31, 1998, approximately 63% of these access lines are provisioned entirely on the Company's network ("on-net lines") with the remainder being a combination of unbundled loops or total service resale from LEC networks.

*Recent Developments*

On May 8, 1998, the Company issued and sold 12,500,000 shares of Class A Common Stock at a price to the public of \$16.00 per share (the "IPO"). Simultaneously with the closing of the IPO, the Company (i) issued and sold an additional 3,324,001 shares of Class A Common Stock to Adelphia at a purchase price of \$15.00 per share (or an aggregate of approximately \$49,900) and (ii) issued 3,642,666 shares of Class A Common Stock to Adelphia in exchange for certain of the Company's indebtedness and payables owed to Adelphia at a purchase price of \$15.00 per share (or an aggregate of \$54,600). In a related transaction, on June 5, 1998, the Company issued and sold 350,000 shares of Class A Common Stock at the \$16.00 IPO price pursuant to the underwriters' over-allotment option in the IPO. These transactions increased the Company's equity by approximately \$285,000, while raising approximately \$241,000 of net proceeds to continue the expansion of the Company's existing markets and to build new markets.

In connection with the IPO, Adelphia purchased all warrants, including any antidilutive provisions, issued to MCImetro Access Transmission Services, Inc. (together with its affiliate MCI Communications, "MCI") in connection with a previous agreement which designated the Company as MCI's preferred provider of end use dedicated access for all new MCI customers and of end user dedicated access circuits resulting from conversions from incumbent LECs in the Company's markets. Furthermore, in consideration of the obligations undertaken by Adelphia to facilitate the agreements between MCI and the Company, the Company paid to Adelphia a fee of \$500 and issued a warrant to Adelphia to purchase 200,000 shares of Hyperion's Class A Common Stock at an exercise price equal to the IPO price.

Through December 31, 1998, 195,965 Class B warrants were exercised and converted into 1,187,541 shares of Class B Common Stock. Of the 1,187,541 shares issued, 1,172,391 shares had been converted into Class A Common Stock as of December 31, 1998. The Company received \$3 in consideration for the exercise of the Class B warrants.

On May 15, 1998, Lenfest Telephony, Inc. ("Lenfest") exercised its warrant to receive 731,624 shares of Hyperion's Class A Common Stock. The warrant related to the purchase by Hyperion of Lenfest's partnership interest in the Harrisburg, Pennsylvania network on February 12, 1998. The Company received no additional consideration for the exercise of the warrant.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
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Hyperion has entered into a series of agreements with several local and long-haul fiber optic network providers that will allow Hyperion to significantly increase its presence in the eastern half of the United States. These agreements, totaling approximately \$126,000, provide Hyperion with ownership or an indefeasible right of use to over 9,000 route miles of fiber optic cable. Through December 31, 1998, the Company has paid \$42,604 of the total due under the agreements, which was included in the property, plant and equipment of the Company. The Company believes this will allow Hyperion to expand its business strategy to include on-net provisioning of regional, local and long distance, internet and data communications and to cost effectively further interconnect most of its 46 existing markets and to cost effectively enter and interconnect 50 new markets by the end of 2001.

During 1998, through a partnership in which Hyperion is a 49.9% limited partner, the Company was the successful bidder, at a cost of approximately \$45 million, for 195 31-GHz licenses, which cover approximately 83 million POPs in the eastern United States representing coverage in most of its network system territory. Hyperion and its partner are currently in the process of dissolving the partnership and the licenses are to become the property of Hyperion at no additional cost to Hyperion. As of December 31, 1998, the partnership had fully funded its obligation due to the FCC. We plan to use the LMDS spectrum in most of its markets, and believe the spectrum to be highly complementary to its fiber-based systems as a economical means to provide "last-mile" connectivity for customers which otherwise could not be economically addressed with broadband connectivity.

LMDS is a fixed broadband point-to-multipoint service which the FCC anticipates will be used for the deployment of wireless local loop, high speed data transfer and video broadcasting services. The Company currently plans to use such spectrum for "last-mile" connectivity in certain of its markets, and believes the spectrum to be highly complementary to its fiber-based systems. The Company is in the process of further refining its plans for utilization of the LMDS spectrum, which could involve substantial additional funds.

On November 4, 1998, the Company entered into purchase agreements with subsidiaries of MediaOne of Colorado, Inc. ("MediaOne"), its local partners in the Jacksonville, FL and Richmond, VA networks, whereby MediaOne will receive approximately \$82,751 in cash for MediaOne's ownership interests in these networks. In addition, the Company will be responsible for the payment of fiber lease liabilities due to MediaOne in the amount of approximately \$14,500 which are generally payable over the next ten years. Upon consummation of this transaction, which is subject to normal closing conditions and receipt of regulatory approvals, the Company's ownership interest in each of these networks will increase to 100%.

On November 10, 1998, the Company and Telergy, Inc. ("Telergy") entered into a binding letter agreement that modified certain provisions of the Senior Secured Note agreement with Telergy and extended the note's maturity from January 20, 1999 to January 20, 2000 in exchange for an IRU or long term lease of certain fiber segments in New York City and along certain of Telergy's long haul fiber segments in the northeastern United States and southeaster Canada. Telergy must deliver such fiber segments within certain agreed upon timelines or be subject to prescribed liquidated damages.

On January 25, 1999, the Company entered into a purchase agreement with Multimedia, Inc. ("Multimedia"), the parent of its local partner in the Wichita, KS market, whereby Multimedia will receive approximately \$8,500 in cash for Multimedia's ownership interest in this network. In addition, the Company will be responsible for the payment of fiber lease liabilities due to Multimedia in the amount of approximately

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
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\$2,800 which is payable over the next six years. Upon consummation of the transaction, which is subject to normal closing conditions and receipt of regulatory approvals, the Company's ownership in Wichita will increase to 100%.

During the quarter ended September 30, 1998, Hyperion paid \$17,313 to repurchase a portion of the 13% Senior Discount Notes due 2003 which had a face value of \$25,160 and a carrying value of \$17,550. The notes were retired upon repurchase which resulted in a \$237 gain.

The Company has made demand advances to Adelphia which, as of December 31, 1998, had an outstanding balance of \$7,600. The Company received interest on the advances at a rate of 6.3%.

*Results of Operations*

*Three Months Ended December 31, 1998 in Comparison with Three Months Ended December 31, 1997*

*Revenues* increased 202% to \$15,043 for the three months ended December 31, 1998, from \$4,983 for the same quarter in the prior fiscal year. Growth in revenues of \$10,060 resulted from an increase in revenues from majority and wholly-owned Operating Companies of approximately \$11,133 as compared to the same period in the prior fiscal year due to the continued expansion of the Company's customer base, its success in the roll out of switched services as a result of the retail end user strategy adopted by the Company and the consolidation of the New Jersey, Louisville, Lexington and Harrisburg networks. Management fees from nonconsolidated subsidiaries decreased \$1,076 as compared to the same period in the prior fiscal year primarily due to the consolidation of the above mentioned networks.

*Network operations expense* increased 151% to \$6,664 for the three months ended December 31, 1998 from \$2,657 for the same quarter in the prior fiscal year. The increase was attributable to the expansion of operations at the Network Operating Control Center ("NOCC"), and the increased number and size of the operations of the Operating Companies which resulted in increased employee related costs and equipment maintenance costs and the consolidation of the New Jersey, Louisville, Lexington and Harrisburg networks.

*Selling, general and administrative expense* increased 330% to \$16,518 for the three months ended December 31, 1998 from \$3,840 for the same quarter in the prior fiscal year. The increase was due primarily to increased expenses associated with the network expansion plan, an increase in the sales force in the Existing Networks, the development of a sales presence in many of the New Networks and an increase in corporate overhead costs to accommodate the growth in the number, size and operations of Operating Companies managed by the Company, as well as the consolidation of the New Jersey, Louisville, Lexington and Harrisburg networks.

*Depreciation and amortization expense* increased 220% to \$10,708 during the three months ended December 31, 1998 from \$3,344 for the same quarter in the prior fiscal year primarily as a result of increased amortization of deferred financing costs, and increased depreciation resulting from the higher depreciable asset base at the NOCC and the majority and wholly owned Operating Companies, and the consolidation of the New Jersey, Louisville, Lexington and Harrisburg networks.

*Interest income* for the three months ended December 31, 1998 decreased 68% to \$1,829 from \$5,632 for the same quarter in the prior fiscal year as a result of decreased cash and cash equivalents and U.S. Government securities due to an interest payment on the 12 1/4 % Senior Secured Notes, investments in joint

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
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ventures, expenditures for property, plant and equipment and the demand advances made to Adelphia, partially offset by proceeds from the IPO.

*Interest income – affiliate* for the three months ended December 31, 1998 increased to \$3,576 from \$93 as a result of demand advances made to Adelphia during the period.

*Interest expense* decreased 26% to \$12,399 during the three months ended December 31, 1998 from \$16,770 for the same period in the prior fiscal year. The decrease was attributable to the reduction of interest expense associated with the reduced amounts payable to Adelphia and higher interest capitalized on networks under construction.

*Equity in net loss of joint ventures* increased by 32% to \$3,776 during the three months ended December 31, 1998 from \$2,858 for the same quarter in the prior fiscal year. The net losses of the nonconsolidated Operating Companies for the three months ended December 31, 1998 were primarily the result of increased revenues only partially offsetting startup and other costs and expenses associated with design, construction, operation and management of the networks of the Operating Companies, and the effect of the typical lag time between the incurrence of such costs and expenses and the subsequent generation of revenues by a network. The increase was partially offset by the consolidation of the New Jersey, Louisville, Lexington and Harrisburg networks for the current period.

The number of nonconsolidated Operating Companies paying management fees to the Company was 8 at December 31, 1998. These Operating Companies and networks under construction paid management and monitoring fees to the Company, which are included in revenues, aggregating approximately \$1,064 for the three months ended December 31, 1998, as compared with \$2,140 for the same quarter in the prior fiscal year. The nonconsolidated Operating Companies' net losses, including networks under construction, for the three months ended December 31, 1997 and 1998 aggregated approximately \$5,447 and \$8,038 respectively.

*Preferred stock dividends* increased by 26% to \$7,284 for the three months ended December 31, 1998 from \$5,794 for the same period in the prior fiscal year. The increase is due to a higher outstanding preferred stock base resulting from dividends being paid in additional shares of preferred stock.

*Nine months Ended December 31, 1998 in Comparison with Nine months Ended December 31, 1997*

*Revenues* increased 300% to \$34,776 for the nine months ended December 31, 1998, from \$8,690 for the same period in the prior fiscal year. Growth in revenues of \$26,086 resulted from an increase in revenues from majority and wholly-owned Operating Companies of approximately \$27,171 as compared to the same period in the prior fiscal year due to the continued expansion of the Company's customer base, its success in the roll out of switched services as a result of the retail end user strategy adopted by the Company and the consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg networks. Management fees from nonconsolidated subsidiaries decreased \$1,085 as compared to the same period in the prior fiscal year primarily due to the consolidation of the above mentioned networks.

*Network operations expense* increased 255% to \$18,709 for the nine months ended December 31, 1998 from \$5,263 for the same period in the prior fiscal year. The increase was attributable to the expansion of operations at the NOCC, and the increased number and size of the operations of the Operating Companies which resulted in increased employee related costs and equipment maintenance costs and the consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg networks.

*Selling, general and administrative expense* increased 288% to \$35,341 for the nine months ended December 31, 1998 from \$9,099 for the same period in the prior fiscal year. The increase was due primarily

## HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES

(Dollars in thousands)

to increased expense associated with the network expansion plan, an increase in the sales force in the Existing Networks and an increase in corporate overhead costs to accommodate the growth in the number, size and operations of Operating Companies managed and monitored by the Company, as well as the consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg networks.

*Depreciation and amortization expense* increased 280% to \$26,671 during the nine months ended December 31, 1998 from \$7,027 for the same period in the prior fiscal year primarily as a result of increased amortization of deferred financing costs and increased depreciation resulting from the higher depreciable asset base at the NOCC and the majority and wholly owned Operating Companies and the consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg networks.

*Interest income* for the nine months ended December 31, 1998 increased 33% to \$10,233 from \$7,675 for the same period in the prior fiscal year as a result of increased cash and cash equivalents and U.S. Government securities due to the investment of the proceeds of the 12 1/4% Senior Secured Notes, the 12 7/8% Senior Exchangeable Redeemable Preferred Stock and the IPO, partially offset by demand advances made to Adelphia.

*Interest income – affiliate* for the nine months ended December 31, 1998 increased to \$8,395 from \$276 as a result of demand advances made to Adelphia during the current period.

*Interest expense* increased 8% to \$38,638 during the nine months ended December 31, 1998 from \$35,934 for the same period in the prior fiscal year. The increase was attributable to the interest on the 12 1/4 Senior Secured Notes partially offset by the reduction of interest expense associated with the reduced amounts payable to Adelphia and higher interest capitalized on networks under construction.

*Equity in net loss of joint ventures* increased to \$9,580 during the nine months ended December 31, 1998 from \$9,284 for the same period in the prior fiscal year. The net losses of the nonconsolidated Operating Companies for the nine months ended December 31, 1998 were primarily the result of increased revenues only partially offsetting startup and other costs and expenses associated with design, construction, operation and management of the networks of the Operating Companies, and the effect of the typical lag time between the incurrence of such costs and expenses and the subsequent generation of revenues by a network. The increase was partially offset by the consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg networks for the current period.

The number of nonconsolidated Operating Companies paying management fees to the Company was 8 at December 31, 1998. These Operating Companies and networks under construction paid management and monitoring fees to the Company, which are included in revenues, aggregating approximately \$2,724 for the nine months ended December 31, 1998, as compared with \$3,809 for the same period in the prior fiscal year. The nonconsolidated Operating Companies' net losses, including networks under construction, for the nine months ended December 31, 1997 and 1998 aggregated approximately \$13,719 and \$22,325 respectively.

*Preferred stock dividends* increased by 264% to \$21,117 for the nine months ended December 31, 1998 from \$5,794 for the same period in the prior fiscal year. The increase is due to the preferred stock which was issued in October 1997.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
(Dollars in thousands)

*Supplementary Operating Company Financial Analysis*

The Company believes that historically, working with Local Partners to develop markets has enabled the Company to build larger networks in a rapid and more cost effective manner than it could have on its own. The Company currently has joint ventures covering 10 networks with Local Partners where the Company owns 50% or less of each joint venture. In three of these joint ventures, the Company has pending agreements to purchase its local partners' interest (see "Recent Developments"). As a result of the Company's historic ownership position in these joint ventures, a substantial portion of the Operating Companies' historic results are reported by the Company on the equity method of accounting for investments which only reflects the Company's pro rata share of net income or loss of the Operating Companies. Because of the recently announced partner roll-ups which have not yet been consummated, the historical GAAP presentation of the assets, liabilities and results of operations of the Company does not represent a complete measure of the financial position, growth or operations of the Company.

In order to provide an additional measure of the financial position, growth and performance of the Company and its Operating Companies, management of the Company analyzes financial information of the Operating Companies on an adjusted GAAP basis. Adjusted GAAP reflects Hyperion's consolidated GAAP financial position and results of operations adjusted for the inclusion of certain Operating Companies (Buffalo, Syracuse, New Jersey, Louisville, Lexington, Harrisburg, Richmond, Jacksonville, and Wichita) which were either purchased in February 1998 or are involved in the pending partnership roll-ups, as more fully described in "Recent Developments". All adjusted GAAP results of operations are presented as if Hyperion consolidated all Operating Companies which were involved in the partnership roll-ups during the entire period presented. This financial information, however, is not indicative of the Company's overall historical financial position or results of operations.

Summary adjusted GAAP information:

	Three Months Ended December 31,		Nine Month Ended December 31,	
	1997	1998	1997	1998
Adjusted GAAP revenue	\$ 8,010	\$ 19,562	\$ 18,715	\$ 47,336
Adjusted GAAP EBITDA	(1,304)	(6,728)	(5,086)	(14,704)
Adjusted GAAP operating loss	(11,069)	(21,515)	(31,719)	(53,805)
Adjusted GAAP net loss applicable to common stockholders	(30,605)	(39,585)	(72,913)	(103,426)
Adjusted GAAP capital expenditures	27,653	39,584	76,029	158,059
Adjusted GAAP gross property, plant and equipment	386,089	573,359	386,089	573,359

For the three months ended December 31, 1998, adjusted GAAP revenue increased 144% to \$19,562 as compared to \$8,010 for the same quarter in the prior fiscal year. The increase in revenues resulted from the continued expansion of the Company's customer base and its success in the roll out of switched services as a result of the retail end user strategy adopted by the Company.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
(Dollars in thousands)

For the three months ended December 31, 1998, adjusted GAAP EBITDA (earnings before interest expense, income taxes, depreciation and amortization, other non-cash charges, gain on sale of investment, interest income and equity in net loss of joint ventures) loss was \$6,728 as compared to \$1,304 for the same quarter in the prior fiscal year. EBITDA and similar measurements of cash flow are commonly used in the telecommunications industry to analyze and compare telecommunications companies on the basis of operating performance, leverage, and liquidity. While EBITDA is not an alternative to operating income as an indicator of operating performance or an alternative to cash flows from operating activities as a measure of liquidity, all as defined by generally accepted accounting principles, and while EBITDA may not be comparable to other similarly titled measures of other companies, the Company's management believes EBITDA is a meaningful measure of performance. The increase in adjusted GAAP EBITDA loss for three months ended December 31, 1998 was due primarily to increased selling, general, and administrative expenses as a result of the increase in direct sales and marketing distribution channels as the Company has aggressively moved to an end-user strategy over the past year, focusing on medium to large business customers, governmental and educational end-users and other telecommunications service providers, and was also due to increased costs associated with the Company's New Network expansion efforts.

For the three months ended December 31, 1998, adjusted GAAP operating loss was \$21,515 as compared to \$11,069 for the same quarter in the prior fiscal year. The increase in adjusted GAAP operating loss was due primarily to the above mentioned increase in selling, general and administrative expenses and increased depreciation and amortization expense resulting from a higher depreciable asset base.

For the three months ended December 31, 1998 adjusted GAAP net loss applicable to common stockholders was \$39,585 as compared to \$30,605 for the same quarter in the prior fiscal year. The increase in adjusted GAAP net loss applicable to common stockholders was due primarily to the above mentioned increase in selling, general and administrative expenses, increased depreciation and amortization and increased preferred stock dividends associated with the Company's financing activities. In particular, depreciation and amortization increase substantially due to the significant capital investment the Company has made and the consolidation of the Operating Companies involved in the roll-ups.

During the three months ended December 31, 1998, the Company and its Operating Companies invested \$54,179 in capital expenditures, of which Hyperion's adjusted GAAP share was \$39,584. As of December 31, 1998, total gross property, plant and equipment of the Company and its consolidated subsidiaries, adjusted for the pending Operating Company roll-ups was approximately \$573,359. As of December 31, 1998, Hyperion's proportionate share of gross property, plant and equipment of all Operating Companies was approximately 90%, adjusted for the pending roll-ups.

For the nine months ended December 31, 1998, adjusted GAAP revenue increased 153% to \$47,336 as compared to \$18,715 for the same period in the prior fiscal year. The increase in revenues resulted from the continued expansion of the Company's customer base and its success in the roll out of switched services as a result of the retail end user strategy adopted by the Company.

For the nine months ended December 31, 1998, adjusted GAAP EBITDA loss was \$14,704 as compared to \$5,086 for the same period in the prior fiscal year. The increase in adjusted GAAP EBITDA loss for the nine months ended December 31, 1998 was due primarily to increased selling, general, and administrative expenses as a result of the increase in direct sales and marketing distribution channels as the Company has aggressively moved to an end-users strategy over the past year, focusing on medium to large

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business customers, governmental and educational end-user and other telecommunications service providers, and was also due to increased costs associated with the Company's New Network expansion efforts.

For the nine months ended December 31, 1998, adjusted GAAP operating loss was \$53,805 as compared to \$31,719 for the same period in the prior fiscal year. The increase in adjusted GAAP operating loss was due primarily to the above mentioned increase in selling, general and administrative expenses and increased depreciation and amortization expense resulting from a higher depreciable asset base.

For the nine months ended December 31, 1998, adjusted GAAP net loss applicable to common stockholders was \$103,426 as compared to \$72,913 for the same period in the prior fiscal year. The increase in adjusted GAAP net loss applicable to common stockholders was due primarily to the above mentioned increase in selling, general and administrative expenses, increased depreciation and amortization, increased equity in net loss of joint ventures and increased preferred stock dividends associated with the Company's financing activities. In particular, depreciation and amortization increase substantially due to the significant capital investment the Company has made and the consolidation of the Operating Companies involved in the pending roll-ups.

During the nine months ended December 31, 1998, the Company and its Operating Companies invested \$200,331 in capital expenditures, of which Hyperion's adjusted GAAP share was \$158,059.

*Liquidity and Capital Resources*

The development of the Company's business and the installation and expansion of the Operating Companies' networks, as well as the development of the New Networks, combined with the construction of the Company's NOCC, have resulted in substantial capital expenditures and investments during the past several years. Capital expenditures by the Company were \$39,775 and \$146,752 for the nine months ended December 31, 1997 and 1998, respectively. Further, investments made by the Company in nonconsolidated Operating Companies and in LMDS licenses were \$53,194 and \$69,018 for the nine months ended December 31, 1997 and 1998, respectively. The significant increase in capital expenditures for the nine months ended December 31, 1998 as compared with the same period in the prior fiscal year is largely attributable to capital expenditures necessary to develop the Existing Networks and the New Networks, as well as the fiber purchases to interconnect the networks (see "Recent Developments"). The Company expects that it will continue to incur substantial capital expenditures in this development effort. The Company also expects to continue to fund operating losses as the Company develops and grows its business. For information regarding recent transactions affecting the Company's liquidity and capital resources, see "Recent Developments."

The Company has experienced negative operating and investing cash flow since its inception. A combination of operating losses, substantial capital investments required to build the Company's networks and its state-of-the-art NOCC, and incremental investments in the Operating Companies has resulted in substantial negative cash flow.

Expansion of the Company's Existing Networks and services and the development of New Networks and additional networks and services requires significant capital expenditures. The Company's operations have required and will continue to require substantial capital investment for (i) the installation of electronics for switched services in the Company's networks, (ii) the expansion and improvement of the Company's Network Operating Control Center ("NOCC") and Existing Networks, (iii) the design, construction and

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
(Dollars in thousands)

development of New Networks and (iv) the acquisition of additional ownership interests in Existing Networks or New Networks. The Company has made substantial capital investments and investments in Operating Companies in connection with the installation of 5ESS switches or remote switching modules in all of its Existing Networks and plans to install regional super switches in certain key New Networks when such New Networks are operational. To date, the Company has installed switches in 20 of its Existing Networks and plans to provide such services in all of its New Networks on a standard switching platform based on Lucent 5 switch technology. In addition, the Company intends to increase spending on marketing and sales significantly in the foreseeable future in connection with the expansion of its sales force and marketing efforts generally. The Company also plans to purchase its partners' interest in the Operating Companies when it can do so at attractive economic terms. The Company estimates that it will require approximately \$400 million to fund the Roll-ups, anticipated capital expenditures, working capital requirements and operating losses and pro rata investments in the Operating Companies through the end of March 31, 2000. The Company believes that the net proceeds from the Offering and the Rigas Notes Purchase, together with its existing cash balance and internally generated funds, will be sufficient to fund the Rollups, the Company's capital expenditures, working capital requirements, operating losses and pro rata investments in the Operating Company's capital expenditures, working capital requirements, operating losses and pro rata investments in the Operating Companies through fiscal quarter ended September 30, 2000. In addition, there can be no assurance (i) that the Company's future cash requirements will not vary significantly from those presently planned due to a variety of factors including acquisition of additional networks, development of the LMDS spectrum, continued acquisition of increased ownership in its networks and material variances from expected capital expenditure requirements for Existing Networks and New Networks or (ii) that anticipated financings, Local Partner investments and other sources of capital will become available to the Company. In addition, it is possible that expansion of the Company's networks may include the geographic expansion of the Company's existing clusters and the development of other new markets not currently planned. The Company expects to continue to build new networks in additional markets, which have broader geographic coverage and require higher capital outlays than those with partners in the past. The Company also has funded the purchase of certain partnership interests and expects to fund additional purchases of partnership interests.

The Company will need substantial additional funds to fully fund its business plan. The Company expects to fund its capital requirements through existing resources, credit facilities and vendor financings at the Company and Operating Company levels, internally generated funds, equity invested by Local Partners in Operating Companies and additional debt or equity financings, as appropriate, and expects to fund its purchase of partnership interest of Local Partners through existing resources, internally generated funds and additional debt or equity financings, as appropriate. There can be no assurances, however, that the Company will be successful in generating sufficient cash flow or in raising sufficient debt or equity capital on terms that it will consider acceptable, or at all.

*Year 2000 Issues*

The year 2000 issue refers to the inability of computerized systems and technologies to recognize and process dates beyond December 31, 1999. This could present risks to the operation of the Company's business in several ways. The Company is evaluating the impact of the year 2000 issue on its business applications and its products and services. The evaluation includes a review of the Company's information technology systems, telephony equipment and other embedded technologies. A significant portion of the Company's computerized systems and technologies have been developed, installed or upgraded in recent years and are generally more likely to be year 2000 ready. The Company is also evaluating the potential impact as a result of its reliance on third-party systems that may have year 2000 issues.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
(Dollars in thousands)

Computerized business applications that could be adversely affected by the year 2000 issue include:

- information processing and financial reporting systems,
- customer billing systems,
- customer service systems,
- telecommunication transmission and reception systems, and
- facility systems.

System failure or miscalculation could result in an inability to process transactions, send invoices, accept customer orders or provide customers with products and services. Customers could also experience a temporary inability to receive or use the Company's products and services.

The Company has developed a program to assess and address the year 2000 issue. This program consists of the following phases:

- inventorying and assessing the impact on affected technology and systems,
- developing solutions for affected technology and systems,
- modifying or replacing affected technology and systems,
- testing and verifying solutions,
- implementing solutions, and
- developing contingency plans.

The Company has substantially completed inventorying and assessing the affected computerized systems and technologies. The Company is in various stages of its year 2000 compliance program with respect to the remaining phases as it relates to the affected systems and technologies.

The Company has engaged a consulting firm familiar with its financial reporting systems. This firm has developed and tested year 2000 solutions that the Company is in the process of implementing. The Company expects its financial reporting systems to be year 2000 compliant by June 1999.

A third-party billing vendor currently facilitates customer billing. The Company is currently in the process of testing an in-house service ordering, provisioning, maintenance and billing system that would replace the third-party billing vendor. The Company expects to have this new system implemented by September 1999. On a contingency basis, the third-party vendor has provided a written statement that it will certify it is fully year 2000 compliant by June 1999.

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(Dollars in thousands)

Telecommunication plant rebuilds and upgrades in recent years have minimized the potential impact of the year 2000 issue on the Company's facilities, customer service, telecommunication transmission and reception systems. The Company is engaged in a comprehensive internal inventory and assessment of all hardware components and component controlling software throughout its telecommunication networks. The Company expects to implement any hardware and software modifications, upgrades or replacements resulting from the internal review by June 1999.

Costs incurred to date directly related to addressing the year 2000 issue have totaled \$350. The Company has also redeployed internal resources to meet the goals of its year 2000 program. The Company currently estimates the total cost of its year 2000 remediation program to be approximately \$775. Although the Company will continue to incur substantial capital expenditures in the ordinary course of meeting its telecommunications system upgrade goals through the year 2000, it will not specifically accelerate its expenditures to facilitate year 2000 readiness, and accordingly such expenditures are not included in the above estimate.

The Company has begun communicating with others with whom it does significant business to determine their year 2000 readiness and to determine the extent to which the Company is vulnerable to year 2000 issues related to those third parties. The Company purchases much of its technology from third parties. There can be no assurance that the systems of other companies on which the Company's systems rely will be year 2000 ready or timely converted into systems compatible with the Company systems. The Company's failure or a third-party's failure to become year 2000 ready or the Company's inability to become compatible with third parties with which the Company has a material relationship, may have a material adverse effect on the Company, including significant service interruption or outages; however the Company can not currently estimate the extent of any such adverse effects.

The Company is in the process of identifying secondary sources to supply its systems or services in the event it becomes probable that any of its systems will not be year 2000 ready prior to the end of 1999. The Company is also in the process of identifying secondary vendors and service providers to replace those vendors and service providers whose failure to be year 2000 ready could lead to a significant delay in the company's ability to provide its service to its customers.

## **REGULATORY AND COMPETITIVE MATTERS**

### **Overview**

Telecommunications services provided by the Company and its networks are subject to regulation by federal, state and local government agencies. At the federal level, the FCC has jurisdiction over interstate and international services. State public utilities commissions (PUCs) exercise jurisdiction over intrastate services. Additionally, municipalities and other local government agencies may regulate limited aspects of the Company's business, such as use of rights-of-way. Many of the regulations issued by these regulatory bodies may be subject to judicial review, the result of which the Company is unable to predict. The networks are also subject to numerous local regulations such as building codes, franchise and right-of-way licensing requirements.

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(Dollars in thousands)

**Telecommunications Act of 1996 ("The Telecommunications Act")**

On February 8, 1996, the Telecommunications Act was signed into law. Among its more significant provisions, the Telecommunications Act (i) removes legal barriers to entry in local telephone markets, (ii) requires incumbent LECs to "interconnect" with competitors, (iii) establishes procedures for incumbent LEC entry into new markets, such as long distance and cable television, (iv) relaxes regulation of telecommunications services provided by incumbent LECs and all other telecommunications service providers, and (v) directs the FCC to establish an explicit subsidy mechanism for the preservation of universal service. As a component of the need for explicit subsidy mechanisms for universal service, the FCC was also directed by Congress to revise and make explicit subsidies inherent in the current access charge system.

*Removal of Entry Barriers*

The Telecommunications Act prohibits state and local governments from enforcing any law, rule or legal requirement that prohibits or has the effect of prohibiting any entity from providing interstate or intrastate telecommunications services. States retain jurisdiction under the Telecommunications Act to adopt laws necessary to preserve universal service, protect public safety and welfare, ensure the continued quality of telecommunications services and safeguard the rights of consumers.

*Interconnection with LEC Facilities*

A company cannot compete effectively with the incumbent LEC in the market for switched local telephone services unless it is able to connect its facilities with the incumbent LEC and obtain access to certain essential services and resources under reasonable rates, terms and conditions. Incumbent LECs historically have been reluctant to provide these services voluntarily and generally have done so only when so ordered by State PUCs. The Telecommunications Act imposes a number of access and interconnection requirements on all local exchange providers, including CLECs, with additional requirements imposed on non-rural incumbent LECs. These requirements will provide access to certain networks under reasonable rates, terms and conditions. Specifically, LECs must (i) allow customers to retain the same telephone number ("number portability") when they switch local service providers, (ii) ensure that an end user does not have to dial any more digits to reach customers of local competitors ("dialing parity"), (iii) establish reciprocal compensation arrangements for the transport and termination of telecommunications traffic, (iv) permit the resale of their services on reasonable and nondiscriminatory terms and interconnect their networks to those of other carriers, and (v) provide access to their poles, ducts, conduits and rights-of-way on a reasonable, nondiscriminatory basis. In addition, incumbent LECs must permit resale of their retail services at wholesale rates and unbundle their network elements at any technical feasible point on rates and terms that are reasonable and nondiscriminatory in a manner that allows carriers to combine such elements in order to provide telecommunications services. Ongoing proceedings addressing these matters, and RBOC and incumbent LEC cooperation with respect thereto, may affect the cost of doing business.

*Dependence on RBOCs and incumbent LECs*

While the Telecommunications Act generally requires incumbent LECs, including Regional Bell Operating Companies ("RBOCs"), to offer interconnection, unbundled network elements and resold services to CLECs, LEC-CLEC interconnection agreements may have short terms, requiring the CLEC continually to renegotiate the agreements. LECs may not provide timely provisioning or adequate service quality thereby

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impairing a CLEC's reputation with customers who can easily switch back to the LEC. In addition, the prices set in the agreements may be subject to significant rate increases if state regulatory commissions establish prices designed to pass on to the CLECs part of the cost of providing universal service.

*Reciprocal Compensation*

The Company's interconnection agreements with incumbent LECs entitle it, among other things, to collect reciprocal compensation payments from the incumbent LECs for local telephone calls terminating on the Company's facilities (as well as obligating us to make similar payments for outbound local calls it delivers to the incumbent LECs). However, incumbent LECs have claimed that these payments should not apply to calls terminating at Internet service provider ("ISP") points of presence, based on the argument that Internet traffic is inherently interstate, not local, in nature. To date, over 25 state PUCs have issued final orders on this issue (some of which are subject to court appeals), and every such order has affirmed that local calls to ISPs are subject to reciprocal compensation. However, the FCC has announced a plan to release a decision of nationwide scope on this issue, and there can be no assurance that this decision will be favorable to the Company's interests. In addition, there can be no assurance that the current reciprocal compensation arrangements will be renewed on their existing terms when they expire.

**Federal Regulation Generally**

On August 8, 1996 the FCC promulgated rules and regulations to implement Congress' statutory directive concerning the interconnection obligations of all telecommunications carriers, including obligations of CLECs and LECs, and incumbent LEC pricing of interconnection and unbundled elements (the "Local Competition Orders"). On July 18, 1997, the U.S. Court of Appeals for the Eighth Circuit ("Eighth Circuit") vacated certain portions of the Local Competition Orders, including provisions establishing a methodology for pricing interconnection and unbundled network elements, a rule permitting new entrants to "pick and choose" among various provisions of existing interconnection agreements between LECs and their competitors, and other provisions relating to the purchase of access to unbundled network elements. On August 22, 1997, the Eighth Circuit issued an order vacating the FCC's rules implementing the Telecommunications Act's dialing parity requirement. On October 14, 1997, the Eighth Circuit issued a decision vacating additional FCC rules finding that incumbent LECs need not provide combinations of network elements to CLECs, even when the incumbent LEC has already combined the same elements within its own network.

On January 25, 1999, the Supreme Court issued an opinion confirming the FCC's authority to issue regulations implementing the pricing and other provisions of the Telecommunications Act and reinstating most of the challenged rules. However, the Supreme Court vacated a key FCC rule identifying the network elements that incumbent LECs are required to unbundle. The Eighth Circuit decisions and their recent reversal by the Supreme Court perpetuate continuing uncertainty about the rules governing the pricing, terms and conditions of interconnection agreements. Although state PUCs have continued to conduct arbitrations, and to implement and enforce interconnection agreements during the pendency of the Eighth Circuit proceedings, the Supreme Court's recent ruling and further proceedings on remand (either to the FCC or the Eighth Circuit) may affect the scope of state commission's authority to conduct such proceedings or to implement or enforce interconnection agreements. They could also result in new or additional rules being promulgated by the FCC. Given the general uncertainty surrounding the effect of the Eighth Circuit decisions and the recent decision of the Supreme Court reversing them, there can be no assurance that the Company

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will be able to continue to obtain or enforce interconnection terms that are acceptable to it or that are consistent with its business plans.

Finally, continuing challenges to state and federal rules and policies implementing the Telecommunications Act, and individual actions by State PUCs could cause the Company to incur substantial legal and administrative expenses.

*LEC Entry into New Markets*

The Telecommunications Act establishes local market-opening procedures under which an RBOC can enter the market for interLATA services originating within its telephone service area. The ability of the RBOCs to provide interLATA services will enable them to provide customers with a full range of local and long distance telecommunications services. The provision of interLATA services by RBOCs is expected to reduce the market share of the major long distance carriers, which are one of the Company's networks' primary customers. Consequently, the entry of the RBOCs into the long distance market may have adverse consequences on the ability of CLECs both to generate access revenues from the long distance carriers and to compete in offering a package of local and long distance services. A number of RBOCs have made initial applications for the approvals necessary to enter their "in-region" long distance markets, although, to date, all such applications have been denied on the basis that the RBOC has not satisfied the list of competitive requirements. However, there have recently been extensive discussions among the state commissions, the FCC, and RBOCs in order to develop a definitive understanding of these requirements and the specific criteria to measure their satisfaction. These discussions may lead to one or more successful RBOC "in-region" applications in the future.

Several RBOCs have recently filed petitions at the FCC requesting a waiver of certain obligations imposed on incumbent LECs in the Telecommunications Act with respect to RBOC-provisioned high-speed data services, including, among other things, the obligation to unbundle and offer for resale such services. In addition, the RBOCs are seeking to provide high-speed data services on an interLATA basis without complying with the market opening provisions of the competitive checklist set forth in the Telecommunications Act, which would be otherwise required of them. In October 1998, the FCC ruled that high-speed services are telecommunications services subject to the requirements of the Telecommunications Act to unbundle such services and offer them for resale. In October 1998, the FCC also issued a Notice of Proposed Rulemaking indicating its intention to clarify expanded rights of CLECs for collocation, access to copper loops, and various other issues of consequence to CLECs deploying high-speed services. In particular, the FCC has proposed allowing RBOCs to promote advanced-services through a separate subsidiary, which would be free of regulatory requirements such as unbundling and resale. These decisions are currently subject to reconsideration and appeal. The final outcome of these decisions, originally scheduled to be announced on January 28, 1999, has been postponed by the FCC while it considers the impact of the Supreme Court's ruling on the Telecommunications Act. The final outcome of these petitions or other proceedings interpreting the requirements of the Telecommunications Act may adversely affect the Company's business.

*Relaxation of Regulation*

Under the Telecommunications Act, the FCC has authority to forbear from regulation provided that such forbearance is consistent with the public interest. Since the Company is a non-dominant carrier and, therefore, is not heavily regulated by the FCC, the potential for regulatory forbearance likely will be more

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES  
(Dollars in thousands)

beneficial to the incumbent LECs than the Company in the long run. In addition, should the FCC prohibit tariff filings as a part of such forbearance, the Company will be unable to take advantage of such protections.

*Universal Service and Access Charge Reform*

On May 8, 1997, the FCC issued its Universal Service Order that requires all telecommunications carriers providing interstate telecommunications services, including the Company, to contribute to universal service support. In a related proceeding, on May 16, 1997, the FCC issued an order to implement certain reforms to its access charge rules that govern charges imposed by LECs on long distance providers for access to the local exchange network, and are designed to compensate the LEC for its investment in the local network. There can be no assurance of how the Universal Service and/or Access Charge Reform Orders and charges will be implemented, changed or enforced, or what effect the Orders will have on competition within the telecommunications industry, generally, or on the competitive position of the Company, specifically.

**State Regulation Generally**

The Company's intrastate long distance operations are subject to various state laws and regulations, including, in most jurisdictions, certification and tariff filing requirements. Certificates of authority can generally be conditioned, modified, canceled, terminated, or revoked by state PUCs for failure to comply with state law and/or the regulations and policies of the state PUCs. Fines and penalties also may be imposed for such violations. State PUCs also regulate access charges and other pricing for telecommunications services within each state. The Company may also be required to contribute to funds to support universal service, telecommunications relay services, and E-911 programs in some states.

**Local Government Authorizations**

An Operating Company may be required to obtain from municipal authorities street opening and construction permits, or operating franchises, to install and expand its fiber optic networks in certain cities. In some cities, the Local Partners or subcontractors may already possess the requisite authorizations to construct or expand the Company's networks. An Operating Company or its Local Partners also may be required to obtain a license to attach facilities to utility poles in order to build and expand facilities. Because utilities that are owned by a cooperative or municipality are not subject to federal pole attachment regulation, there are no assurances that an Operating Company or its Local Partners will be able to obtain pole attachments from these utilities at reasonable rates, terms and conditions.

In some of the areas where the Operating Companies provide service, their Local Partners pay license or franchise fees based on a percent of fiber lease payment revenues. In addition, in areas where the Company does not use facilities constructed by a Local Partner, the Operating Company may be required to pay such fees. There are no assurances that certain municipalities that do not currently impose fees will not seek to impose fees in the future, nor is there any assurance that, following the expiration of existing franchises, fees will remain at their current levels. In many markets, other companies providing local telecommunications services, particularly the incumbent LECs, currently are excused from paying license or franchise fees or pay fees that are materially lower than those required to be paid by the Operating Company or Local Partner. The Telecommunications Act requires municipalities to charge nondiscriminatory fees to all telecommunications providers, but it is uncertain how quickly this requirement will be implemented by particular municipalities in which the Company operates or plans to operate or whether it will be implemented without a legal challenge initiated by the Company or another CLEC.

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If any of the existing Local Partner Agreements or Fiber Lease Agreements held by a Local Partner or an Operating Company for a particular market were terminated prior to its expiration date and the Local Partner or Operating Company were forced to remove its fiber optic cables from the streets or abandon its network in place, even with compensation, such termination could have a material adverse effect on the Company.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Not Applicable.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

**Item 2. Changes in Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

#### Item 4. Submission of Matters to a Vote of Security Holders

The annual meeting of the stockholders of the Company was held on October 6, 1998. Stockholders entitled to vote a total of 309,371,236 votes, out of 348,075,849 votes attributable to all shares of the Company's outstanding capital stock, were represented at the meeting either in person or by proxy. At such meeting, nine (9) directors were elected by the vote of the stockholders, as follows:

<u>Director Elected</u>	<u>Class of Stock</u>	<u>Votes for</u>	<u>Withheld</u>	<u>Broker Non-Votes</u>
John J. Rigas	Class A Common	18,240,474	207,785	--
	Class B Common	291,130,762	--	--
	12 7/8% Preferred	--	--	--
Michael J. Rigas	Class A Common	18,240,474	207,785	--
	Class B Common	291,130,762	--	--
	12 7/8% Preferred	--	--	--
Timothy J. Rigas	Class A Common	18,240,474	207,785	--
	Class B Common	291,130,762	--	--
	12 7/8% Preferred	--	--	--
James P. Rigas	Class A Common	18,240,474	207,785	--
	Class B Common	291,130,762	--	--
	12 7/8% Preferred	--	--	--
Daniel R. Milliard	Class A Common	18,240,474	207,785	--
	Class B Common	291,130,762	--	--
	12 7/8% Preferred	--	--	--
Randolph S. Fowler	Class A Common	18,240,474	207,785	--
	Class B Common	291,130,762	--	--
	12 7/8% Preferred	--	--	--
Charles R. Drenning	Class A Common	18,240,474	207,785	--
	Class B Common	291,130,762	--	--
	12 7/8% Preferred	--	--	--
Pete J. Metros	Class A Common	18,240,474	207,785	--
	Class B Common	291,130,762	--	--
	12 7/8% Preferred	--	--	--
James L. Gray	Class A Common	18,240,474	207,785	--
	Class B Common	291,130,762	--	--
	12 7/8% Preferred	--	--	--

## **Item 5. Other Information**

The attached Exhibit 99.1 provides certain financial and business information of the Company for the three months ended December 31, 1998, pursuant to Section 4.03(a)(iii) of the Indenture dated April 15, 1996 with respect to the 13% Senior Discount Notes.

The attached Exhibit 99.2 provides certain financial and business information of the Company for the three months ended December 31, 1998, pursuant to Section 4.03(a)(iii) of the Indenture dated August 27, 1997 with respect to the 12 1/4% Senior Secured Notes.

The attached Exhibit 99.3 provides certain financial and business information of the Company for the three months ended December 31, 1998.

The attached Exhibits 99.4 through 99.11 provide certain financial and business information for the Company.

## **Item 6. Exhibits and Reports on Form 8-K**

### **(a) Exhibits:**

Exhibit 27.1 Financial Data Schedule (supplied for the information of the Commission).

Exhibit 99.1 "Schedule E - Form of Financial Information and Operating Data of the Subsidiaries and the Joint Ventures Presented by Cluster".

Exhibit 99.2 "Schedule F - Form of Financial Information and Operating Data of the Pledged Subsidiaries and the Joint Ventures".

Exhibit 99.3 Press Release Dated February 9, 1999

Exhibit 99.4 Press Release Dated December 10, 1998

Exhibit 99.5 Press Release Dated December 16, 1998

Exhibit 99.6 Press Release Dated November 4, 1998

Exhibit 99.7 Press Release Dated February 1, 1999

Exhibit 99.8 Press Release Dated February 8, 1999

Exhibit 99.9 Press Release Dated February 9, 1999

Exhibit 99.10 Press Release Dated February 10, 1999

Exhibit 99.11 Press Release Dated February 11, 1999

(b) Reports on Form 8-K:

None

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HYPERION TELECOMMUNICATIONS, INC.  
(Registrant)

Date: February 16, 1999

By: /s/ Timothy J. Rigas  
Timothy J. Rigas  
Vice Chairman, Chief Financial Officer  
(authorized officer) and Treasurer

Date: February 16, 1999

By: /s/ Edward E. Babcock, Jr.  
Edward E. Babcock, Jr.  
Vice President, Finance and  
Chief Accounting Officer

## **Exhibit Index**

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## SCHEDULE E

## Hyperion Telecommunications, Inc.

Form of Financial Information and Operating Data  
of the Subsidiaries and the Joint Ventures Presented by Cluster

Data presented for the quarter ended: 12/31/98

## Unaudited

	North East	Mid-Atlantic	Mid-South	Other	Total
FINANCIAL DATA (dollars in thousands):					
Total Revenue	\$ 7,017.5	\$ 8,700.5	\$ 5,331.5	\$ 3,469.2	\$ 24,518.7
Total Capital Expenditures	\$ 7,192.2	\$ 24,221.0	\$ 12,392.8	\$ 10,373.2	\$ 54,179.2
Total EBITDA	\$ 2,713.1	\$ (2,536.0)	\$ (3,774.0)	\$ 365.5	\$ (3,231.4)
Gross PP&E	\$ 103,486.1	\$ 299,901.1	\$ 117,674.8	\$ 120,407.7	\$ 641,469.7
Proportional Revenue *	\$ 6,866.9	\$ 5,655.6	\$ 4,616.8	\$ 950.8	\$ 18,090.1
Proportional Capital Expenditures*	\$ 7,192.2	\$ 17,989.8	\$ 10,290.5	\$ 9,040.0	\$ 44,512.5
Proportional EBITDA *	\$ 2,791.7	\$ (2,437.3)	\$ (3,060.1)	\$ (210.8)	\$ (2,916.5)
Proportional Gross PP&E *	\$ 103,486.1	\$ 230,921.6	\$ 96,501.8	\$ 77,785.3	\$ 508,694.8

## STATISTICAL DATA

## Increase for December 31, 1998

Networks in Operation	--	--	--	--	--
Route Miles	1,634	1,943	2,399	3,318	9,294
Fiber Miles	25,984	44,923	10,696	21,794	103,397
Buildings connected	6	1	40	8	55
Total Buildings with Customers	374	14	93	62	640
LEC-COs collocated **	--	--	--	--	--
Voice Grade Equivalent Circuits	38,808	(26,304)	(9,096)	(71,520)	(68,112)

## As of September 30, 1998:

Networks in Operation	3	9	6	2	20
Route Miles	1,564	2,210	1,158	779	5,711
Fiber Miles	67,325	106,079	55,584	37,392	266,380
Buildings connected (adjusted)	341	680	310	362	1,693
Total Buildings with Customers	1,649	811	2,825	535	5,820
LEC-COs collocated **	16	64	25	18	123
Voice Grade Equivalent Circuits	173,544	496,032	209,352	267,072	1,146,000

## As of December 31, 1998:

Networks in Operation	3	9	6	2	20
Route Miles	3,198	4,153	3,557	4,097	15,005
Fiber Miles	93,309	151,002	66,280	59,186	369,777
Buildings connected with fiber	347	681	350	370	1,748
Total Buildings with Customers	2,023	922	2,918	597	6,460
LEC-COs collocated **	16	64	25	18	123
Voice Grade Equivalent Circuits	212,352	469,728	200,256	195,552	1,077,888
Access Lines Sold	20,711	63,231	39,341	10,403	133,686
Access Lines Installed	17,578	53,061	31,379	7,987	110,005

\* Represents portion attributable to the Company.

\*\* Local Exchange Carrier's central office

\*\*\* Other Network amounts includes Network Control Centers and Corporate Capital Expenditures

and Gross Property, Plant and Equipment

**SCHEDULE F****Hyperion Telecommunications, Inc.****Form of Financial Information and Operating Data  
of the Pledged Subsidiaries and the Joint Ventures**

Data presented for the quarter ended:

**12/31/98***Unaudited***Total****FINANCIAL DATA (dollars in thousands)(a):**

Total Revenue	\$	11,388.0
Total Capital Expenditures	\$	13,616.1
Total EBITDA	\$	1,312.9
Gross Property, Plant & Equipment	\$	183,786.0

**STATISTICAL DATA(b):****As of December 31, 1998:**

Networks in Operation:	
Route Miles	3,149
Fiber Miles	143,433
Buildings connected	838
LEC-COs collocated	54
Voice Grade Equivalent Circuits	528,864
Access Lines Sold	60,873
Access Lines Installed	48,363

- (a) Financial Data represents 100% of the operations of all entities except Hyperion of Florida, which is reflected at Hyperion's ownership in the Jacksonville network, which is 20%.
- (b) Statistical Data represents 100% of operating data for all entities

**Contact Information:**

Ed Babcock  
Hyperion Communications  
814-274-9830

**FOR IMMEDIATE RELEASE**

**HYPERION TELECOMMUNICATIONS, INC. AND ITS OPERATING COMPANIES ANNOUNCE  
THIRD QUARTER RESULTS**

**Coudersport, PA – February 9, 1999**

John J. Rigas, Chairman of Adelphia Communications Corporation ("Adelphia") (NASDAQ NNM: ADLAC) and Hyperion Telecommunications, Inc. ("Hyperion" or "the Company") (NASDAQ NNM: HYPT) reported results of operations for Hyperion and its Operating Companies (defined in footnote) for the third quarter which ended on December 31, 1998.

Due to the recently announced purchase of its partners' interests in the Jacksonville, FL, Richmond, VA and Wichita, KS markets, Hyperion's and its consolidated subsidiaries operating results are presented on both an adjusted generally accepted accounting principles ("GAAP") basis (Exhibit A below) and in accordance with historical GAAP (Exhibit B below). Adjusted GAAP reflects Hyperion's consolidated results of operations adjusted for the results of operations of all Operating Companies for which the Company acquired or will acquire the outstanding partnership interests (a "roll-up"). Adjusted GAAP results of operations are presented as if Hyperion consolidated these Operating Companies during the entire periods presented. The Company will include operating results in accordance with GAAP in its Form 10-Q, which will be filed with the SEC by February 16, 1999.

Third quarter results saw adjusted GAAP revenue increase 144% to \$19,562,000 over the same quarter in the prior fiscal year. The increase in revenues for the third quarter was primarily due to the continued expansion of the Company's customer base and its success in the deployment of switched services as a result of the retail end user strategy adopted by the Company. During the December 1998 quarter, the Operating Companies sold 39,726 additional access lines, bringing total sales to 133,686 access lines as of December 31, 1998. (The Company counts access lines on a one for one basis, irrespective of the number of telephone sets in use through trunks into a PBX; that is, no multipliers are used.) Installed lines also increased 32,871 during the December 1998 quarter, bringing total installed access lines to 110,005 at December 31, 1998, approximately 63% of which are provisioned completely on the Company's network (on-net lines).

Third quarter adjusted GAAP gross margin was \$11,545,000, or 59% of sales as compared to \$4,547,000, or 57% of sales for the same quarter in the prior fiscal year. The strong gross margin performance was due to a combination of high margin on-net business customers with access lines and high margin dedicated access revenues from each of the markets consolidated from the three pending roll-ups.

Third quarter adjusted EBITDA loss was \$6,728,000 as compared to \$1,304,000 for the same quarter in the prior fiscal year. The EBITDA loss was in line with the Company's expectations, and was due primarily to increased selling, general, and administrative expenses as a result of the ramp up in direct sales and marketing distribution channels and to increased costs associated with the Company's network expansion efforts.

Third quarter adjusted GAAP net loss applicable to common stockholders was \$39,585,000 or (\$0.71) per share as compared to \$30,605,000 or (\$0.88) per share for the same quarter in the prior fiscal year and \$32,393,000 or (\$0.58) per share for the September 1998 quarter. The increase in adjusted GAAP net loss for the third quarter was due primarily to the above mentioned increase in selling, general and administrative expenses, increased depreciation and amortization expenses and increased preferred stock dividends associated with the Company's financing activities. In particular, depreciation and amortization increased substantially due to the significant capital investment the Company has made and the consolidation of the Operating Companies involved in the pending roll-ups.

During the third quarter, the Company and its Operating Companies invested \$54,179,000 in capital expenditures, of which Hyperion's adjusted GAAP share was \$39,584,000. As of December 31, 1998, total gross property, plant and equipment of the Company and its consolidated subsidiaries on an as adjusted GAAP basis was approximately \$573,359,000.

As of December 31, 1998, adjusted for the three pending roll-ups, Hyperion's proportionate share of the gross, property, plant and equipment of the Company and the Operating Companies was approximately 90%. Proportionate share reflects the collective sum of Hyperion and Hyperion's economic interest in each of the Operating Companies it owns and manages at Hyperion's ownership percentage as of December 31, 1998 (adjusted for the three pending roll-ups). As of December 31, 1998, the Operating Companies had approximately 5,988 local route miles and 279,705 local fiber miles. The Company had customers located in approximately 6,460 buildings of which 1,748 buildings were connected with Company owned fiber. To date, 20 Lucent 5ESS switches or remote switching modules have been installed to provide local telephone service with eight additional regional super switches planned for operation during 1999.

Hyperion Communications, is a majority owned subsidiary of Adelphia Communications Corporation that provides integrated communications services to business customers through its state-of-the-art fiber optic communications network. By the year 2001, Hyperion will serve most cities in the eastern half of the United States through the interconnection of its 46 existing markets with more than 50 new markets, creating a single fiber optic backbone network. This fully redundant, 16,000-mile local and long-haul fiber optic network will support Hyperion's full line of communication service offerings, including local and long distance voice services, messaging, high-speed data and Internet services. For more information on Hyperion, visit the company's web site at <http://www.hyperioncom.net>.

Exhibit A that follows sets forth the adjusted GAAP operating results for Hyperion and consolidated subsidiaries, adjusted for the completed and pending roll-up transactions, for the three and nine months ended December 31, 1997 and 1998, respectively.

Exhibit B that follows sets forth the operating results in accordance with historical GAAP for Hyperion and its consolidated subsidiaries for the three and nine months ended December 31, 1997 and 1998, respectively.

Footnote: Hyperion's Operating Companies consist of 22 networks serving 46 cities through (i) eight partnerships or limited liability companies with local partners, encompassing nine networks, (ii) 10 wholly owned subsidiaries of the Company, encompassing 11 networks, (iii) one corporation, encompassing one network, in which the Company is a minority shareholder and (iv) one company, encompassing one network, in which the Company is a majority equity holder (collectively, the "Operating Companies").

# EXHIBIT A

## Hyperion Telecommunications, Inc. and its Operating Companies Adjusted GAAP Operating Results (a)

	<i>Unaudited</i>			
	Three Months Ended December 31,		Nine Months Ended December 31,	
	1997	1998	1997	1998
Operating Revenue	\$ 8,010,000	\$ 12,562,000	\$ 18,715,000	\$ 47,336,000
Direct Operating Expenses	3,463,000	8,017,000	8,876,000	22,432,000
Gross Margin	4,547,000	11,545,000	9,839,000	24,904,000
Sales, General & Administrative Expenses	5,851,000	18,273,000	14,925,000	39,608,000
EBITDA (b)	(1,304,000)	(6,728,000)	(5,086,000)	(14,704,000)
Depreciation & Amortization Expense	9,765,000	14,787,000	26,633,000	39,101,000
Operating Loss	(11,069,000)	(21,515,000)	(31,719,000)	(53,805,000)
Interest Income	5,673,000	1,849,000	7,781,000	10,345,000
Interest Income - Affiliate	93,000	3,576,000	276,000	8,396,000
Interest Expense	(17,359,000)	(12,716,000)	(38,379,000)	(39,597,000)
Other Income	--	--	--	1,113,000
Loss before Equity in Net Loss of Joint Ventures	(22,662,000)	(28,806,000)	(62,041,000)	(73,548,000)
Equity in Net Loss of Joint Ventures	(2,149,000)	(3,495,000)	(5,078,000)	(8,998,000)
Loss before Extraordinary Gain on Repurchase of Debt	(24,811,000)	(32,301,000)	(67,119,000)	(82,546,000)
Extraordinary Gain on Repurchase of Debt	--	--	--	237,000
Net Loss	(24,811,000)	(32,301,000)	(67,119,000)	(82,309,000)
Preferred Stock Dividends	(5,794,000)	(7,284,000)	(5,794,000)	(21,117,000)
Net Loss Applicable to Common Stockholders	\$ (30,605,000)	\$ (39,585,000)	\$ (72,913,000)	\$ (103,426,000)
Basic and Diluted Net Loss per Weighted Average Share of Common Stock	\$ (0.88)	\$ (0.71)	\$ (2.09)	\$ (1.95)
Weighted Average Shares of Common Stock Outstanding	34,890,000	55,497,000	34,890,000	53,035,000

- (a) Adjusted GAAP reflects Hyperion's consolidated operating results adjusted for the consolidation of certain joint ventures (Buffalo, Syracuse, New Jersey, Louisville, Lexington, Harrisburg, Richmond, Jacksonville, and Wichita) in which Hyperion has bought out or is currently in the process of buying out its partners' interests. All results of operations are presented as if all of the purchases of these joint ventures had occurred at the beginning of the periods presented.
- (b) Earnings before interest, income taxes, depreciation and amortization and other income/expense ("EBITDA") and similar measures of cash flow are commonly used in the telecommunications industry to analyze and compare telecommunications companies on the basis of operating performance, leverage, and liquidity. While EBITDA is not an alternative indicator of operating performance or an alternative to cash flows from operating activities as a measure of liquidity as defined by GAAP, and while EBITDA may not be comparable to other similarly titled measures of other companies, management of the Company believes that EBITDA is a meaningful measure of performance.

**EXHIBIT B**

**Hyperion Telecommunications, Inc. and Subsidiaries  
Condensed Consolidated Statements of Operations**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	<u>1997</u>	<u>1998</u>	<u>1997</u>	<u>1998</u>
<b>Revenues</b>	\$ 4,983,000	\$ 15,043,000	\$ 8,690,000	\$ 34,776,000
<b>Operating Expenses</b>				
Network Operations	2,657,000	6,664,000	5,263,000	18,709,000
Selling, General & Administrative	3,840,000	16,518,000	9,099,000	35,341,000
Depreciation & Amortization Expense	3,344,000	10,708,000	7,027,000	26,671,000
<b>Total</b>	<u>9,841,000</u>	<u>33,890,000</u>	<u>21,389,000</u>	<u>80,721,000</u>
<b>Operating Loss</b>	(4,858,000)	(18,847,000)	(12,699,000)	(45,945,000)
<b>Other Income (Expense)</b>				
Interest Income	5,632,000	1,829,000	7,675,000	10,233,000
Interest Income - Affiliate	93,000	3,576,000	276,000	8,395,000
Interest Expense	(16,770,000)	(12,399,000)	(35,934,000)	(38,638,000)
	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,113,000</u>
<b>Loss Before Equity in Net Loss     of Joint Ventures</b>	(15,903,000)	(25,841,000)	(40,682,000)	(64,842,000)
<b>Equity in Net Loss of Joint Ventures</b>	<u>(2,858,000)</u>	<u>(3,776,000)</u>	<u>(9,284,000)</u>	<u>(9,580,000)</u>
<b>Loss before Extraordinary Gain on Repurchase of Debt</b>	(18,761,000)	(29,617,000)	(49,966,000)	(74,422,000)
<b>Extraordinary Gain on Repurchase of Debt</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>237,000</u>
	(18,761,000)	(29,617,000)	(49,966,000)	(74,185,000)
<b>Preferred Stock Dividends</b>	<u>(5,794,000)</u>	<u>(7,284,000)</u>	<u>(5,794,000)</u>	<u>(21,117,000)</u>
<b>Net Loss Applicable to Common Stockholders</b>	<u>\$ (24,555,000)</u>	<u>\$ (36,901,000)</u>	<u>\$ (55,760,000)</u>	<u>\$ (95,302,000)</u>
<b>Basic and Diluted Net Loss per Weighted Average     Share of Common Stock</b>	<u>\$ (0.70)</u>	<u>\$ (0.66)</u>	<u>\$ (1.60)</u>	<u>\$ (1.80)</u>
<b>Weighted Average Shares of Common</b>	<u>34,890,000</u>	<u>55,497,000</u>	<u>34,890,000</u>	<u>53,035,000</u>

# NEWS RELEASE

**For immediate release**

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Victor Colantonio  
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December 10, 1998

**NorthEast Optic Network signs \$14 million contract with Hyperion Communications for New England Fiber Services**

Hyperion Communications (NASDAQ-NMM: HYPT) and NorthEast Optic Network, Inc., (NEON) (NASDAQ-NMM: NOPT) have entered into a binding memorandum of understanding that will allow Hyperion to provide state-of-the-art fiber optic communications to most businesses throughout New England. The arrangement will include usage on NEON's long haul fiber optic routes, intercity facilities and metro systems in White Plains, New York, Connecticut, Rhode Island, Massachusetts, New Hampshire and Southern Maine. The contract represents approximately \$14 million of revenue to NEON over its 20 year term. A year-end closing is anticipated.

Victor Colantonio, president of NEON, said "Hyperion is the first service provider to implement a truly comprehensive utilization of NEON's facilities to cover interstate, intrastate and local fiber. Their program adds significantly to our backlog and represents a phased delivery that matches NEON's build-out schedule with Hyperion's regional service roll-out."

Initially, NEON will provide Hyperion with dark fiber capacity from White Plains, NY to Portland, ME, including facility termination points at as many as 70 specific carrier switch centers along the NEON network. "Typically, our network customers look for connectivity from a couple to a half dozen locations.

In this instance, Hyperion has identified about 12 times that number and the selected sites are spread throughout our service territory. NEON is thrilled to be the northeast strategic partner to Hyperion", said Colantonio.

Dan Milliard, President of Hyperion Communications, indicated that his company is planning an extensive expansion program into the New England states. "We believe that the New England markets offer us the right environment to roll-out services specifically aimed at secondary and tertiary communities. In our opinion, New England is under served and we intend to change that by giving businesses a better choice to acquire better communication services at very attractive prices – and NEON gives us fast turn-up and deep penetration into our targeted customers."

Hyperion Communications, a leading provider of competitive local, long distance, data and enhanced communications services, continues to develop its presence in the communications industry through its relationship with NEON. Expansion into New England increases the size and scope of Hyperion's reach to offer a robust array of services in New England. This NEON expansion, along with a series of agreements announced earlier this year with Qwest Communications, Williams Communications and several other leading fiber optic network providers, now provides Hyperion with access to over 9,000 route miles of fiber throughout the eastern half of the United States.

NorthEast Optic Network, Inc. is a facilities-based, carriers' carrier providing technologically advanced, high-bandwidth, fiber optic transmission capacity for certificated carriers on local loop, intercity and interstate facilities. NEON currently is expanding its fiber optic network to encompass more than 900 route miles or more than 60,000 fiber miles in New York and New England. The completion of currently planned routes in the network will enable the NEON system to create a continuous fiber optic link between New York City and Portland, Maine with access into and around Boston, Massachusetts and other major service areas in the Northeast, connecting more than 540 cities and towns in six states. The company closed an IPO of 4.5 million shares and a simultaneous bond offering of \$180 million on July 30, 1998.

(Notation: Except for factual information contained in this news release, any forward looking statements concerning future plans for expansion and completion of NEON are based on current estimates and projections and actual results could materially differ from those statements.)

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**FOR IMMEDIATE RELEASE**

**HYPERION COMMUNICATIONS SELECTS CALL TECHNOLOGIES, INC.'S CALL  
COURIER ENHANCED VOICE MESSAGING PLATFORM**

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**COUDERSPORT, Pa., DECEMBER 16, 1998** – Hyperion Communications selected Call Technologies, Inc., a leading provider of network-based enhanced services and operational support systems, to provide voice, fax and unified messaging services for its customers. Hyperion, a competitive local exchange carrier (CLEC) will immediately begin to implement Call Technologies' Call Courier messaging in all its markets.

Hyperion designs, constructs and manages state-of-the-art fiber optic networks that serve as the backbone for the company's robust array of services, including local dial tone, long distance, dedicated access, high-speed data and Internet services. Hyperion is significantly enhancing its product line, and Call Courier voice messaging will be the latest addition to Hyperion's suite of communications services.

"Hyperion chose Call Technologies' Call Courier platform in order to give our customers a state-of-the-art voice messaging solution," said Tom Cady, Hyperion's Vice President of Marketing and Sales. "Call Courier's open-systems approach, compatibility with traditional systems, and many unique features surpassed other platforms we evaluated."

"The Call Courier service creation platform will enable us to rapidly deploy new messaging capabilities such as Unified Messaging to our customers," added Hyperion's Cady. "Hyperion plans to provide additional enhanced services to our customers in the future, and as we do, we will look to Call Technologies."

"We are very pleased to welcome Hyperion as a Call Courier customer," said Rich LaPerch, Call Technologies' Vice President and General Manager. "With the explosive growth of the CLEC industry attracting increasing numbers of market entrants, leaders such as Hyperion are aggressively seeking ways to differentiate themselves in the market while at the same time controlling costs. Call Courier gives Hyperion that edge – superior product benefits that customers want, without the high cost of legacy systems."

Hyperion Communications currently is constructing a super-regional, fully redundant, fiber optic network serving the eastern half of the United States. This network is being formed through the interconnection of Hyperion's existing markets with more than 50 new markets. Call Technologies has completed its first installation of Call Courier for Hyperion in Charlottesville, Virginia. An additional 45 markets will be added by mid-1999.

The Call Courier Universal Messaging platform is a hardware-independent, open-systems software package that provides cost-effective messaging solutions. These features give carriers the freedom to deploy an advanced messaging service on virtually any equipment and to quickly introduce new features. Call Courier can even emulate a legacy system user interface, so that users who are accustomed to a legacy system can use the same procedures for accessing or leaving voice messages.

Hyperion Communications is a publicly traded company (NASDAQ:HYPT) that is a subsidiary of Adelphia Communications Corporation, one of the largest U.S. cable television companies. Hyperion currently operates 20 networks serving 46 geographic markets in the eastern half of the United States. Visit Hyperion's web site at [www.hyperioncom.net](http://www.hyperioncom.net).

With offices in Reston, Va., Call Technologies, Inc. is a leading provider of hardware-independent, value-added enhanced service software and operational support systems to major telecommunications companies. Call Technologies also provides comprehensive messaging and provisioning, verification and notification systems. Visit Call Technologies' web site at [www.calltec.com](http://www.calltec.com).

# PRESS RELEASE

**For immediate release**

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Hyperion Communications to acquire business telephony interests in Jacksonville and Richmond from MediaOne®

(Coudersport, PA) Hyperion Communications, a leading competitive local exchange carrier (CLEC), has entered into agreements with MediaOne to acquire the remaining interests in fiber optic networks providing business telephone services in Jacksonville, FL and Richmond, VA. The agreements give Hyperion 100 percent ownership of more than 1,000 route miles of fiber and enhance the company's position as one of the largest facilities-based CLECs in the eastern United States. Closing is subject to customary conditions and is expected to occur in early 1999.

Hyperion Communications and MediaOne formed a partnership in 1992 to provide business customers in Jacksonville and Richmond with integrated communications services including local dial tone, long distance, dedicated access, and data services. The agreement to end the partnership is mutually beneficial because it enables each company to focus on the core components of its business plan.

"Hyperion remains fully committed to the Jacksonville and Richmond business communities and we look forward to continued success in delivering a full range of communication solutions to these markets," said Dan Milliard, President and Chief Operating Officer of Hyperion Communications. "In addition, the extensive fiber route miles acquired through this transaction contribute to Hyperion's continuing efforts to increase its ownership in existing networks and are a key component of our network expansion plan in the eastern United States. This transaction increases Hyperion's ownership in the networks it manages to nearly 90 percent."

Hyperion currently is constructing a super-regional, fully redundant, fiber optic network serving the eastern third of the United States. This network is being formed through the interconnection of Hyperion's existing markets with more than 50 new markets. Once complete, the backbone of Hyperion's super-regional network

will pass directly through Jacksonville and Richmond, enabling area businesses to receive the highest level of fiber optic communications service available.

"This agreement is truly a win/win situation for both parties. MediaOne's telecommunications group can now focus on providing competitive telephony- based services in the residential marketplace while Hyperion can focus on its core competencies in the business arena," said Greg Braden, MediaOne's vice president of telephony.

Hyperion Telecommunications (NASDAQ NNM: HYPT), a majority owned subsidiary of Adelphia Communications Corporation (NASDAQ NNM:ADLAC), designs, constructs and manages state-of-the-art fiber optic networks. These networks serve as the backbone for Hyperion's robust array of services, including local dial tone, long distance, dedicated access, high-speed data and Internet services. Hyperion currently operates 20 networks serving 46 geographic markets in the eastern third of the United States.

MediaOne, the nation's leading Broadband services company, provides entertainment, information, and communications services to about 5 million customers. MediaOne Group (NYSE: UMG) is one of the world's largest broadband communications companies, bringing the power of broadband and the Internet to more than seven million customers in the United States, Europe and Asia. The company also has interests in some of the fastest-growing wireless communications businesses outside the U.S., serving more than three million customers. For 1997, the businesses now part of MediaOne Group produced \$6.6 billion in proportionate revenue.

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**FOR IMMEDIATE RELEASE**

**HYPERION COMMUNICATIONS ENTERS INTO \$200 MILLION AGREEMENT WITH  
LUCENT TECHNOLOGIES FOR OPTICAL SYSTEMS**

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**Coudersport, Pa., February 1, 1999** -- Hyperion Communications has entered into a \$200 million agreement with Lucent Technologies to install Lucent's high-capacity dense wave division multiplexing (DWDM) optical network equipment on Hyperion's fiber-optic network serving the eastern half of the United States.

Hyperion Communications selected Lucent's WaveStar™ OLS 400G, the company's industry-leading DWDM system, to dramatically boost the capacity and service capabilities of Hyperion's 9,000-mile communications network. Installation of the DWDM equipment is expected to begin in the spring of 1999 and will be completed over the next two years.

"Lucent's high-bandwidth optical equipment enhances the capacity and capabilities of our network and offers several advantages to Hyperion customers," said Dan Milliard, President and Chief Operating Officer of Hyperion Communications. "With Lucent's DWDM equipment complimenting our network, Hyperion customers will enjoy the most sophisticated, high-speed voice, data and video communications available. In addition, this equipment, along with our extensive network, will allow us to reach markets that are currently underserved."

Lucent's DWDM systems are used by carriers worldwide as an economical means of increasing the capacity of their fiber-optic networks. The WaveStar, designed by Bell Labs, is the first to enable communications providers like Hyperion to grow incrementally from one to 80 wavelengths, or channels. It provides up to 400 gigabit-per-second capacity over a single strand of fiber – equivalent to carrying the per-second traffic of the entire worldwide Internet over one fiber.

In addition, the system can be configured to handle up to eight fibers, each transmitting 400 gigabits per second, to give communications providers a maximum capacity of 3.2 terabits (or 3.2 trillion bits) per second of voice, video and data traffic. That's equivalent to transmitting over 90,000 volumes of an encyclopedia in one second.

This marks the second major contract between Hyperion and Lucent, with a multi-million dollar contract previously signed to place Lucent's 5ESS® Switching System throughout Hyperion's network.

"Hyperion is building a world-class fiber-optic network, based on our WaveStar™ OLS 400G system and our 5ESS Switching System," said Bill Plunkett, vice president of sales for Lucent's emerging service providers. "By selecting our DWDM offering, Hyperion will be able to dramatically increase the capacity of its network to offer its customers a wide array of new data, video and Internet service options."

Hyperion Communications (NASDAQ NNM: HYPT), is a majority owned subsidiary of Adelphia Communications Corporation (NASDAQ NNM:ADLAC) that designs, constructs and manages state-of-the-art fiber optic communications networks. By the year 2001, Hyperion will serve most cities in the eastern United States through the regional interconnection of its 22 existing markets with more than 50 new markets. This fully redundant, 9,000-mile fiber optic network will support Hyperion's full line of communication service offerings, including local and long distance voice services, messaging, high-speed data and Internet services. For more information on Hyperion, visit the company's web site at <http://www.hyperioncom.net>.

Lucent Technologies, headquartered in Murray Hill, New Jersey, designs, builds and delivers a wide range of public and private networks, communications systems and software, data networking systems, business telephone systems and microelectronics components. Bell Laboratories is the research and development arm for the company. For more information on Lucent Technologies, visit the company's web site at <http://www.lucent.com>.

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**FOR IMMEDIATE RELEASE**

**HYPERION COMMUNICATIONS ACCELERATES ENTRY INTO KEY MARKETS  
THROUGH LOCAL FIBER OPTIC NETWORK AGREEMENTS**

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**Coudersport, Pa., February 8, 1999** – Hyperion Communications has entered into agreements with five prominent companies in the telecommunications industry to provide Hyperion with existing local fiber optic routes needed for quick and cost-effective entry into several key markets throughout the eastern United States.

Hyperion Communications (NASDAQ:HYPT), one of the largest competitive local exchange carriers (CLECs) in the United States, has entered into agreements with NorthEast Optic Network, Inc. (NEON), Metromedia Fiber Network, Inc. (MFN), e.spire Communications, Inc., Telergy Inc. and Interpath Communications. The agreements provide Hyperion with a long-term lease or an indefeasible right of use (IRU) to approximately 600 local fiber route miles.

The fiber obtained through the contract with NEON allows Hyperion to quickly enter markets throughout New England. The agreement with Metromedia Fiber Network supplements an earlier agreement and provides Hyperion with broad coverage in Manhattan and the New York metropolitan area, as well as new entry into Chicago, IL, Washington DC and northern Virginia. Hyperion will gain cost-effective access to Atlanta, GA through an agreement with e.spire. Telergy will allow Hyperion to efficiently enter Manhattan, NY and an agreement with Interpath Communications will allow Hyperion to enter the Raleigh-Durham/Chapel Hill, NC market.

The markets reached through these agreements are key to Hyperion's network expansion strategy. Hyperion currently is constructing a super-regional, fully redundant, fiber optic network serving the eastern half of the United States. This network is being formed through the interconnection of Hyperion's 46 existing markets with more than 50 new markets.

"These agreements accelerate Hyperion's entry into new markets and strengthen our position as a leading CLEC and a major force in the communications industry," said Dan Milliard, President and Chief Operating Officer of Hyperion Communications. "We will look for similar strategic agreements in the future and will continue to build our own network where it is beneficial."

Hyperion Communications (NASDAQ NNM: HYPT), is a majority-owned subsidiary of Adelphia Communications Corporation (NASDAQ NNM: ADLAC) that provides integrated communications services to business customers through its state-of-the-art fiber optic communications network. By the year 2001, Hyperion will serve most cities in the eastern half of the United States through the interconnection of its 46 existing markets with more than 50 new markets, creating a single fiber optic backbone network. This fully redundant, 16,000-mile local and long-haul fiber optic network will support Hyperion's full line of communication service offerings, including local and long distance voice services, messaging, high-speed data and Internet services. For more information on Hyperion, visit the company's web site at [www.hyperioncom.net](http://www.hyperioncom.net).

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**FOR IMMEDIATE RELEASE**

**HYPERION COMMUNICATIONS ACQUIRES BUSINESS TELEPHONY INTEREST IN  
WICHITA FROM MULTIMEDIA CABLEVISION**

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**Coudersport, Pa., February 9, 1999 --** Hyperion Communications, a leading competitive local exchange carrier (CLEC), has entered into an agreement with Multimedia Cablevision, the cable television arm of Gannett Co., Inc, to acquire Multimedia's interest in a partnership of the two companies which provides business communication services to Wichita, Kan. The agreement gives Hyperion a long-term lease of more than 180 route miles of fiber and enhances the company's position as one of the largest facilities-based CLECs in the United States.

The agreement with Multimedia marks Hyperion's eighth "roll-up" of a partnership in two-and-a-half years and increases Hyperion's ownership in the networks it manages to 90 percent. Other conditions of the agreement will provide Hyperion with the option to lease local fiber routes needed for quick and cost-effective entry into Topeka, Kan. Furthermore, the recent addition of a Lucent 5ESS-2000 communications switch on the Wichita network enables Hyperion to expand its service offerings in the area to include high-quality local telephone services.

"Hyperion is pleased to offer new products and services to Wichita area businesses. We look forward to strengthening our presence in Wichita and developing positive, new customer relationships," said Dan Milliard, President and Chief Operating Officer of Hyperion Communications. "In addition, the fiber route miles leased under this transaction contribute to Hyperion's overall expansion strategy."

Hyperion Communications and Multimedia Cablevision formed a partnership in September of 1993 to provide telecommunications services to business customers. For years, Multimedia and Hyperion have delivered state-of-the-art private line services in Wichita. These services connect branch offices to headquarter locations and business customers to long distance carriers using fiber optic facilities. The agreement to end the partnership is mutually beneficial because it allows each company to focus on the core components of its business plan.

Hyperion Communications (NASDAQ NNM: HYPT), is a majority owned subsidiary of Adelphia Communications Corporation (NASDAQ NNM:ADLAC) that provides integrated communications services to business customers through its state-of-the-art fiber optic communications network. By the year 2001, Hyperion will serve most cities in the eastern half of the United States through the interconnection of its 46 existing markets with more than 50 new markets, creating a single fiber optic backbone network. This fully redundant, 16,000-mile local and long-haul fiber optic network will support Hyperion's full line of communication service offerings, including local and long distance voice services, messaging, high-speed data and Internet services. For more information on Hyperion, visit the company's web site at <http://www.hyperioncom.net>.

Multimedia Cablevision, with headquarters in Wichita, serves 515,000 customers in the states of Kansas, Oklahoma and North Carolina. The company provides a variety of home entertainment services, including basic and digital cable television programming, premium movie channels, pay-per-view programming options, digital stereo music, cable advertising and video production services.

Gannett is a nationwide news and information company. In addition to its cable operations, it publishes 75 daily newspapers, including USA TODAY, and USA WEEKEND, a newspaper magazine. Gannett also operates 21 television stations serving more than 16.6 percent of U.S. television homes.

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**FOR IMMEDIATE RELEASE**

**HYPERION COMMUNICATIONS EXPANDS SERVICE OFFERINGS TO INCLUDE ENHANCED  
DATA SERVICES**

*Agreement with Intermedia Communications Strengthens Hyperion's Data Capabilities*

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**Coudersport, Pa., February 10, 1999** -- Hyperion Communications, a leading competitive local exchange carrier (CLEC), has entered into an agreement with Intermedia Communications Inc. for Enhanced Data Transport Services. The agreement enables Hyperion to offer a wide range of high-speed enhanced data services to its customers.

Intermedia's Enhanced Data Transport Services complement Hyperion's rapidly advancing product line, which includes local and long distance voice services, messaging, data and Internet services. Hyperion will offer high-speed data services to business customers in the second quarter of 1999, beginning with the rollout of Frame Relay Services.

Hyperion selected Intermedia based on the company's comprehensive data network and the strength of their managed service offering. "Hyperion was looking for an alliance to complement our current offerings and enable Hyperion to provide end-to-end data solutions to our customers," said Tom Cady, Vice President of Marketing and Sales for Hyperion Communications. "Hyperion is strengthening our data offering with Intermedia's portfolio of managed data services and broadening our reach by leveraging both our fiber optic network and the national Intermedia data network."

"The agreement with Hyperion is an exciting addition to the Intermedia strategy," said Rick Buyens, Intermedia's senior vice president, Sales. "Together with Hyperion, Intermedia will be able to further expand our capabilities to provide high-speed, reliable data services on a nationwide basis. We are creating true synergy between the companies as we use our networks in partnership to provide a rich portfolio of advanced, end-to-end data solutions."

**Page 2 of 2**

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This agreement complements recent announcements from Hyperion regarding expansion into 50 new markets; the interconnection of all markets over a single fiber backbone network; and the selection of Lucent's high-capacity dense wave division multiplexing (DWDM) optical network equipment. The combination of high-speed, cost-effective access using Hyperion fiber optic communications and the addition of Enhanced Data Services positions Hyperion to provide competitive full-service, state-of-the-art communications to business customers.

"We are building on the foundation of our extensive fiber optic network by forming strategic partnerships to offer a greater breadth of competitive products and services to Hyperion customers," said Dan Milliard, President and Chief Operating Officer of Hyperion Communications. "The addition of Enhanced Data Services is a natural progression to better serve Hyperion customers in our existing and new markets."

Hyperion Communications (NASDAQ NNM: HYPT), is a majority owned subsidiary of Adelphia Communications Corporation (NASDAQ NNM:ADLAC) that provides integrated communications services to business customers through its state-of-the-art fiber optic network. By the year 2001, Hyperion will serve most cities in the eastern half of the United States through the interconnection of its 46 existing markets with more than 50 new markets, creating a single fiber optic backbone network. This fully redundant, 16,000-mile local and long-haul fiber optic network will support Hyperion's full line of communication service offerings, including local and long distance voice services, messaging, high-speed data and Internet services. For more information on Hyperion, visit the company's web site at <http://www.hyperioncom.net>.

Intermedia Communications Inc., headquartered in Tampa, Florida, provides integrated telecommunications solutions including voice and data, local and long distance, and advanced network access services in major US markets. Intermedia's enhanced data portfolio, including frame relay networking, ATM, and a full range of business services, offers seamless end-to-end service virtually anywhere in the world. For more information on Intermedia Communications, visit the company's web site at <http://www.intermedia.com>.

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**FOR IMMEDIATE RELEASE**

**HYPERION COMMUNICATIONS ANNOUNCES SUMMARIZED FINANCIAL RESULTS FOR  
MATURE OPERATING COMPANIES**

As a measure of the progress the Company has achieved in its six most mature Operating Companies, Hyperion Communications ("Hyperion" or "the Company") (NASDAQ NNM: HYPT) announced combined results of operations for the Company's six (6) most mature Operating Companies (as defined below) for the third quarter which ended December 31, 1998.

The summarized financial results for the six Operating Companies below are for the Jacksonville, FL, Richmond, VA, Buffalo, NY, Syracuse, NY, Wichita, KS and Vermont markets. Of the six Operating Companies, three (Buffalo, Syracuse and Vermont) are consolidated into the Company's financial statements. The remaining three (Jacksonville, Richmond and Wichita) are joint ventures in which the Company is currently in the process of buying its partners' ownership interest. These Operating Companies represent the six most mature networks of the Company, all of which have been in operation for four (4) or more years. The summarized combined results of operations are intended to provide meaningful information in analyzing the progress to date and are not intended to be indicative of future financial results.

Summarized quarterly financial results of operations are as follows:

	<u>Three Months Ended</u>		
	December 31, 1998	September 30, 1998	December 31, 1997
Revenue	\$ 11,375,000	\$ 9,313,000	\$ 5,244,000
EBITDA	\$ 3,736,000	\$ 3,000,000	\$ 1,000,000
EBITDA Margin	33%	30%	18%
Gross PP&E	\$176,179,000	\$165,041,000	\$133,582,000
Capital Expenditures	\$ 11,138,000	\$ 7,006,000	\$ 14,389,000
Access Lines Installed	29,565	22,767	7,636

"The Company is very pleased with the operating and financial progress achieved in our mature markets. Revenues are up over 22% in the December quarter as compared with the prior quarter, and revenues have more than doubled when compared to the December quarter a year ago," commented Ed Babcock, Vice President of Finance. "EBITDA (as defined below) margins, at 33% in the December 1998 quarter, or \$3,736,000 continue to further strengthen, as compared to \$3,000,000 in the September 1998 quarter and just under \$1,000,000 a year ago. This EBITDA margin improvement has allowed the Company to aggressively develop its market expansion strategy without significantly increasing its overall EBITDA losses. Finally, the Company is pleased with the access line provisioning in these markets; with approximately 80% of the lines installed at December 31, 1998 completely on the Company's own network ("on-net")."

Hyperion is a majority owned subsidiary of Adelphia Communications Corporation that provides integrated communications services to business customers through its state-of-the-art fiber optic communications

Hyperion Announces Mature Company Results

network. By the year 2001, Hyperion will serve most cities in the eastern half of the United States through the interconnection of its 46 existing markets with more than 50 new markets, creating a single fiber optic backbone network. This fully redundant, 16,000-mile local and long-haul fiber optic network will support Hyperion's full line of communication service offerings, including local and long distance voice services, messaging, high-speed data and Internet services. For more information on Hyperion, visit the company's web site at <http://www.hyperioncom.net>.

Past performance is not necessarily indicative of future operating results.

Footnote: Hyperion's Operating Companies consist of 22 networks serving 46 cities through (i) eight partnerships or limited liability companies with local partners, encompassing nine networks, (ii) 10 wholly owned subsidiaries of the Company, encompassing 11 networks, (iii) one corporation, encompassing one network, in which the Company is a minority shareholder and (iv) one company, encompassing one network, in which the Company is a majority equity holder (collectively, the "Operating Companies").

Footnote: Earnings before interest, income taxes, depreciation and amortization and other income/expense ("EBITDA") and similar measures of cash flow are commonly used in the telecommunications industry to analyze and compare telecommunications companies on a basis of operating performance, leverage, and liquidity. While EBITDA is not an alternative indicator of operating performance or an alternative to cash flows from operating activities as a measure of liquidity as defined by generally accepted accounting principles, and while EBITDA may be comparable to other similarly titled measures of other companies, management of the Company believes that EBITDA is a meaningful measure of performance.

Hyperion Communications of North Carolina, L.P.  
Application for a Certificate of Public Convenience and Necessity  
Docket No. P-798, Sub 1

**ATTACHMENT 4**

Hyperion Telecommunications, Inc.  
Projected Income Statement

## High Yield Research—Americas

Industry: Telecommunications  
 June 29, 1998  
 Code T2CLECS

Mark H. Rose 212/325-2413 mark.rose@csfb.com

## Hyperion (HYPT)

## Re-initiating coverage.

## Recommendation:

*We recommend buying Hyperion's Senior Discount Notes and Preferred. As the company aggressively adds access lines and grows revenues over the next 12 months, we think that both securities should tighten by a minimum of 100-150 bp over the treasury curve. In addition, we think that Hyperion distinguishes itself among other facility based CLECs with its modest leverage in comparison to the group (see our comparison table on page 4).*

Coupon	Description	Maturity	Out Amt. (MM)	Rating	First Call		Recent		
					Date	Price	Price	YTW	Spread
13.000%	Sr. Disc. Nts.	04/15/03	\$329.0	B3	04/15/01	106.50	74.50	11.39	+588
12.250%	Sr. Sec. Nts.	03/15/04	\$250.0	B3	09/01/01	106.13	109.00	9.97	-448
12.875%	Sr. Exch PIK Pfd	10/15/07	\$200.0	CC1	10/15/02	106.44	106.00	11.98	-650
LTM Rev.(1)	LTM EBITDA(1)	Margin	EBITDA/ Interest	Debt/ EBITDA	Cash	Debt + Pfd	PPE(1)	EQTY	
\$17.5mm	\$4.96mm	NA	NA	NA	\$503mm	\$724mm	\$336mm	\$929mm	

(1) Numbers reflect the weighted ownership performance for each of Hyperion's separate networks.

**Key Points: Growth,  
 low cost network, and  
 on-net customers!**

- Hyperion is a second tier CLEC that has shifted from its network build-out focus that it maintained as a private company to a rapid growth agenda with plans to add over 135,000 access lines in its Fiscal 1999. We forecast revenues to grow from \$17.5 million in its FY 1998, which ended March 31<sup>st</sup>, to \$81 million in FY 1999.
- Over 70% of Hyperion's access lines are totally on-net, which is ahead of all other CLECs. Attributing to the high on-net concentration of traffic is its 22 networks that connect to 113 local service offices (LSOs), which is over 5 LSOs per market. Most CLECs connect to approximately 2-3 LSOs per market. On-net lines are the most profitable, and because Hyperion has such a high concentration of on-net lines, its mid-50% gross margin is one of the highest in the CLEC sector.
- Hyperion has \$336 million in property, plant, and equipment (PP&E). GST Communications and e.spire, the two most comparable CLECs, have \$470 million and \$336 million in PP&E, respectively. But, Hyperion has only \$211 million in net debt and preferred, and e.spire and GST have \$312 million and \$512 million, respectively. Hyperion has partnered with cable or utility companies in the build-out of most of its networks, which has allowed it to minimize capital spending per network and gain from its partners' owned conduits.
- We estimate that Hyperion will need to raise a net \$420 million over the next five years to execute its business plan. With over \$500 million in cash and restricted securities, the company is nearly funded for the next two years.

**Bond Analysis**

*We think that the Hyperion 13% Senior Discount Notes and PIK Preferred should provide the most favorable yields for investors. Over the next twelve months, we think that these securities should tighten 100-150 bp over the treasury curve at a minimum. When comparing Hyperion's PIK Preferred to other securities of weaker credits (see the Tables 1 and 2), we think that they should trade through the following:*

- *GST 12¾% Senior Subordinate Accrual Notes, which have over \$900 million in the capital structure above of it and a \$648 million market cap below. HYPT's PIK Preferred has \$550m above it and a \$937 million market cap below. Currently, Hyperion's PIK Preferred trades +43 bp behind the GST 12¾% notes.*
- *Several third tier CLECs, such as Focal, Allegiance, and MGC Communications have bonds which trade within 100 basis points or tighter of Hyperion's PIK Preferred and Senior Discount Notes. Each is in a much earlier stage than Hyperion with weaker facilities underneath the bonds as well.*
- *From a potential take-out perspective, we think facility based second tier CLECs with over \$300 million in PP&E and a rapidly growing customer base present a very appealing target to predator telcos. For this reason, we think that the preferred securities of second tier CLECs should trade at least 100 bp ahead of the bonds of weaker facility based third tier CLECs.*

**Comparison of the credit**

In Table 1, we present a comparison analysis of several facility based CLECs. We include several historical statistics along with our calendar 1998 estimates. In our analysis, we have ranked all of the companies in several categories related to growth, profitability, and asset coverage. All ranks are averaged to output a score for each company (low is best). Our method is not perfect, and we do not suggest drawing any hard conclusions from the scores, but we think this system is a useful tool for making comparisons. Currently, we are recommending many of the securities of both Hyperion and e.spire, and this analysis presents many reasons supporting our recommendations.

We tend to sub-group the CLECs into one of two types of strategies, regional or nationwide focus. Hyperion is most directly comparable to GST Communications and e.spire Communications, early stage CLECs with regional focused strategies. e.spire rated the best in this group of three with a score of 2.8 followed by Hyperion's score of 3.6.

Both e.spire and Hyperion scored well with strong internal growth. e.spire achieved favorable score with its ratios of quarterly annualized revenues to (net debt + pfd) and to property plant and equipment (PP&E). This is an indicator that e.spire is successfully generating revenue momentum from its asset - the network. We look for Hyperion to improve in the revenue-related ratios over the next four quarters because its priority focus has shifted to customer growth.

Hyperion scored at the top of the entire group in the ratio of (net debt + pfd) to gross PP&E which supports the theme that Hyperion has built its network very efficiently when compared to other CLECs. Hyperion is also attractive as the

least leveraged CLEC in the group as shown by the ratio of (net debt+pdf)/enterprise value.

Below, in Table 1a, we feature five of the six CLECs from our comp sheet. We have created a rank to spread ratio for each company. The rank is from Table 1, and the spreads are from respective senior discount notes in Table 2. This ratio is a measurement of how a CLEC's relative operating statistics are reflected in its bond prices. Again, we do not rely on this measurement as a sole driving factor to our recommendations, but we do think that it is a useful tool. A CLEC with a low ratio may not be receiving full credit for its operational performance in comparison to its peers. The CLEC credit may be undervalued, or investors may have some negative expectations related to the company. *In the case of Hyperion and e.spire, we think that the credits are undervalued.*

**Table 1a**  
**Rank/Spread analysis**

	Hyperion	GST	e.spire	WinStar	ICG Comm.
Rank	3.6	4.0	2.8	3.9	2.4
YTW	11.39%	11.22%	10.42%	10.68%	9.63%
Spread	+588	+573	+493	+519	+403
<b>Rank/Spread</b>	<b>6.05</b>	<b>6.98</b>	<b>5.63</b>	<b>7.49</b>	<b>6.07</b>

Source: Credit Suisse First Boston High Yield Research.

The market perceives the nationwide CLECs featured in Table 1 in a much different way. Nextlink and WinStar, whose strategies are to penetrate the top cities across the U.S., have the greatest amount of EBITDA losses in the near-term forecast of all the CLECs in Table 1. While the near-term expectations for NextLINK and WinStar are for large losses, the long-term expectations are much higher for these nationwide focused CLECs as shown in the high enterprise values and rank/spread ratios given to them by the markets. WCI and NXLK also score a similar amount in our rating system (around 4.0).

Also note that the regional CLECs tend to be less leveraged with net debt and preferred and have lower EBITDA losses. ICG Communications scored at the top of our rating system with a 2.4 rating (lower – being better). Considering ICG Communications is the most mature CLEC in this group, we think that it is appropriately scoring ahead of the other emerging CLECs.

**Table 1**  
**Comparison of CLEC credits**  
\$ in Millions

	Hypotenon	GST	es.sure	NextLINK	WinStar	ICG Comm.	Total
<b>Revenues</b>							
1997	14.0	89.0	59.0	57.6	79.6	434.0	719
1998E	52.0	190.0	150.0	132.8	272.0	570.4	1,315
growth	271%	113%	154%	131%	242%	31%	83%
Q1/98	6.0	29.0	27.5	26.5	47.4	125.7	256
internal q/q growth	22.0%	4.8%	18.5%	17.8%	30.0%	6.2%	
Q1/98 rate	2	6	3	4	5	5	
<b>EBITDA</b>							
1997	(13.2)	(50.2)	(53.7)	(75.4)	(158.3)	(124.3)	(462)
1998E	(24.1)	(43.2)	(31.8)	(153.8)	(191.2)	(32.7)	(453)
growth	-82%	14%	41%	-104%	-21%	74%	2%
Q1/98	(4.5)	(14.8)	(11.6)	(29.9)	(49.0)	(25.7)	(131)
<b>CAPEX</b>							
1997	120.0	215	130	210.5	220	286.2	1,062
1998E	205.0	240	160	400.0	300	441.3	1,541
growth	71%	12%	23%	90%	36%	54%	45%
Q1/98	48.0	41.8	54.0	51.6	30.0	72.3	250
<b>Gross PP&amp;E</b>							
1997	228.0	433.0	250.0	364.6	880.0	861.0	2,789
1998E	450.0	670.0	430.0	786.1	1,180.0	1,180.1	4,226
growth	97%	55%	72%	116%	34%	35%	52%
Q1/98	337	470	336	411	910	904	3,031
% of total	111%	155%	111%	136%	30%	29.8%	
<b>Net debt+redeemable ptd</b>							
1997	362.9	548.0	369.0	273.1	611.0	708.2	2,509
1998E	440.0	801.6	522.0	998.5	1,338.0	989.7	4,851
growth	21%	46%	41%	266%	119%	40%	85%
Q1/98	211.0	512.0	312.0	474.5	799.0	806.2	2,904
% total of group	7%	18%	11%	16%	28%	28%	
<b>Market Cap</b>							
Shares (in millions)	56.8	44.7	66.3	54.0	37.2	57.8	
Price	16.5	14.5	19.8	34.6	42.5	35.6	
Market cap	937	648	1,304	1,870	1,582	2,059	7,462
% total of group	13%	9%	17%	25%	21%	28%	
<b>Recent enterprise value (EV)</b>	1,147.5	1,160.4	1,615.5	2,344.3	2,380.7	2,865.3	10,366
	11%	11%	16%	23%	23%	28%	
<b>Lines</b>							
Total installed	23,120	44,846	57,653	72,834	145,000	186,156	506,489
% of total group	5%	9%	11%	14%	29%	37%	
Sequential growth	97%	55%	54%	41.7%	50%	48.6%	
Reported rev/mn/mn	565	551	550	555	551	557	
Entirely on-net (as of March 98)	81%	53%	13%	19%	15%	30%	
unbundled-hybrid	5%	42%	36%	75%	15%	24%	
Total service resale	14%	5%	45%	8%	70%	46%	
On-net Q1/98 rate	1	2	4	3	6	5	
<b>Operating ratios</b>							
QRA/ND-Ptd	11%	23%	35%	22%	24%	62%	
QRA/PPE	7%	25%	33%	26%	21%	56%	
QRA/1997 CAPEX	20%	54%	35%	50%	86%	176%	
QRA/Installed lines	1,370.42	2,586.63	1,907.37	1,455.36	1,307.59	2,700.96	
QELA/QRA	-74%	-51%	-42%	-113%	-103%	-20%	
(Net debt)-old/EV	18.4%	44.1%	19.3%	20.2%	33.6%	28.1%	
Net debt-oldest/PPE	0.63x	1.09x	0.22x	1.15x	0.88x	0.89x	
Score (low is good)	3.8	4.0	2.8	4.3	3.9	2.4	
<b>Target markets</b>	Tier 2 and tier 3	Tier 2 and strategic tier 1	Tier 2 and strategic tier 1	Tier 1 and Tier 2	Tier one	Tier 2 and some Tier 1	
<b>Primary geographies</b>	Eastcoast	Western U.S.	Mid-Southern	Nationwide	Nationwide	4 Regional Clusters	

**Unique abbreviations**

QRA - Quarterly revenues annualized

QELA - Quarterly EBITDA losses annualized

Note: An estimated value for spectrum was added to WinStar's and NextLINK's PP&E.

Estimates for Nextlink and ICG Communications are from Credit Suisse First Boston's equity research analyst Frank Gornall.

Source: Credit Suisse First Boston High Yield Research unless noted.

Table 2  
Selective CLEC securities

Ticker	Security	Size	Rating	Price	YTW	Spread
Nextlink	12 1/2% Sr Nts due 4/15/06	\$350	NR	114.00	8.75%	+324
NXLK	9 5/8% Sr Nts due 10/1/07	\$400	NR	103.00	9.05%	+356
	14% Exch PIK Pfd due 2/1/09	\$285	NR	60.00	11.17%	
Winstar	12 1/2% Sr Secured Nts due 3/15/04	\$250	B3/CCC+	112.00	9.70%	+421
WCII	14% Sr. Disc Nts due 10/15/05	\$294	NR/CCC+	83.38	10.68%	+519
	14 1/2% Sr Accretion Nts due 10/15/05	\$100	NR/CCC+	138.25	11.03%	+556
	10% Sr Sub Nts due 3/15/08	\$200	NR/NR	99.25	10.12%	+466
	11% Sr Sub Accretion Nts due 3/15/08	\$250	NR/NR	99.25	11.44%	+598
	15% Sr Subordinate Accretion due 3/1/07	\$100	NR/NR	132.00	11.64%	+618
	14 1/4% PIK Pfd due 12/15/07	\$175	NR/NR	122.00	12.48%	+701
RCN	10% Sr Notes due 10/15/07	\$225	B3/NR	102.63	9.49%	+401
RCNC	11 1/8% Sr Disc Notes due 10/15/07	\$601	NR	64.00	10.85%	+537
	9.8% Sr Disc Nts due 2/15/08	\$567	B3/NR			
Hyperion	13% Sr Disc Nts due 4/03	\$329	NR	74.50	11.39%	+588
HYPER	12 1/4% Sr Notes due 9/1/04 (3 yr guar)	\$250	NR	109.00	9.97%	+448
	Exch PIK Pfd due 10/07	\$200	NR	106.00	11.98%	+650
GST	13 1/4% GST Equip Sr Nts due 05/01/07	\$265	NR	115.00	9.81%	+432
	13 7/8% Sr Disc Nts due 12/15/05	\$351	NR	80.00	11.22%	+573
	10 1/2% Sr Disc Nts due 5/1/08	\$500	NR	60.00	10.69%	+523
	12 3/4% Accrual Notes due 11/15/07	\$125	NR	116.00	11.53%	+607
ICG	13 1/2% Sr Disc Nts due 9/15/05	\$584	NR			
ICGX	12 1/2% Sr Disc Nts due 5/1/06	\$550	NR	79.50	9.63%	+403
	10% Sr Disc Nts due 2/15/08	\$490	NR	61.00	10.45%	+487
	9 7/8% Sr Disc Nts due 5/1/08	\$405	NR	60.00	10.33%	+476
	11 5/8% Sr Disc Nts due 3/15/07	\$176	NR			
	14 1/4% Exch PIK Pfd due 5/01/07	\$150	NR			
	14% Exch PIK Pfd due 3/15/08	\$100	NR			
E. Soire	13% Sr Disc Nts due 11/1/05	\$190	NR	84.00	10.42%	+493
ESPI	12 3/4% Sr Disc Nts due 4/1/06	\$120	NR	81.00	10.12%	+461
	13 3/4% Sr Nts due 7/15/07	\$220		116.00	10.23%	+473
	12 3/4% PIK Pfd due 10/09	\$150	NR	113.00	11.98%	+651
	14 3/4% Pfd due 7/15/08	\$60	NR			
Teligent	11 1/2% Sr. Nts. due 12/1/7	\$300	Caa1/CCC	102.00	11.09%	+562
TGNT	0/11 1/2% Sr. Disc Nts due 3/1/8	\$440	NA/NA	55.00	12.43%	+697
KMC	12 1/2% Sr Disc Nts due 2/15/08	\$461	NR/NR	59.00	12.01%	+654
Adv Radio	14% Sr Nts due 2/15/07	\$135	Caa2/CCC+	108.00	12.20%	+671
ARTT						
Knology	11 7/8% Sr Disc Nts due 10/15/07	\$444	NR/NR	59.00	12.30%	+683
KNOLOG						
Allegiance	11 3/4% Sr. Disc. Nts. due 2/15/8	\$445	NA/NA	55.00	12.62%	+715
Focal	12 1/8% Sr. Disc. Nts. due 2/15/8	\$270	NA/NA	60.50	11.51%	+603
21st Cent	12 1/4% Sr. Disc. Nts. due 2/15/8	\$200	Caa2/NR	56.13	12.60%	+713
CENTEL	13.75% PIK Pfd due 2/15/10	\$50	Caa/NR	109.50	12.74%	+726
MGC	13% Sr Nts due 10/1/04	\$160	Caa2/NR	102.00	12.46%	+696
MGCCOM						

Source: Credit Suisse First Boston High Yield Research

**Key points to earnings announcement and conference call:**

Hyperion has the highest concentration of on-net access lines of any CLEC. Reported line mix as of mid-June:

70% On-net

5% On-switch using unbundled network elements (UNE)

25% Resale

On net has declined in the past two quarters because the company is now selling into markets that it has not finished building its network. Hyperion should transfer most of its resold lines to on-net facilities as its networks are completed. Hyperion has 17 switches connecting customers and should turn-up three more switches in the near-term. We do not expect the on-net mix to drop below 65%. This is because Hyperion has penetrated more central offices (COs) (which is where customer lines connect to the ILEC's switch) per market than any other CLEC. Hyperion connects to 113 COs in 22 markets or over 5 per market and most CLECs have a ratio of 2-3 COs per market.

Total "proportionate" revenues for the quarter were \$6.02 million, up 22% sequentially. Estimates for the June quarter are around \$7.9 million for Hyperion's revenues, and the company indicated that it was on track to exceed this amount. For the fiscal 1998-year, revenues reached \$17.5 million up 125% over the prior year. We forecast \$81 million in total revenues for Hyperion in FY 1999.

We think the most important news of the earnings release was installed lines increased from April 1 through mid-June 1998 by 19,000 lines. We expect the company to install over 20,000 lines in the June quarter. This is ahead of current street expectations. Hyperion has nearly doubled its total lines installed for four quarters in a row, which includes the June quarter ending next week. This is the number one indicator that gives us confidence that Hyperion should continue its aggressive ramp-up of revenues. Management said that they were very comfortable with the consensus forecast of 28,000 and 39,000 lines installed in the September and December quarters, respectively. For the entire FY 1999, we estimate that Hyperion will add 137,000 lines.

Hyperion revealed that several markets are EBITDA positive. A few of the markets mentioned include Buffalo, Vermont, Charlottesville, and Wichita. The consolidated operating companies' revenue and EBITDA loss for the March quarter were \$9.0 million and (\$2.5 million), respectively. Hyperion's proportionate share of revenues and EBITDA losses were \$6.0 million and (\$4.5 million), respectively. The greater EBITDA loss by Hyperion versus its operating companies is due to corporate overhead accounted at the parent company and some of the EBITDA positive markets being only partially owned by Hyperion. The company said on its call that it would increase its stake in several markets to gain ownership of at least 80%+ of all the networks. **This would be a positive event if Hyperion increases its ownership in one of the EBITDA positive markets.** In Table 4, we present the historical and operational performance of the Hyperion operating clusters.

The company is executing several projects to speed revenue generation and improve margins such as improving its back office computer systems, network

management and line provisioning capabilities, and purchasing long haul dark fiber to interconnect its networks. It is favorable to hear of these projects taking place in the early stage of Hyperion's growth because lack of adequate growth preparation has delayed other CLECs in the past. It gives us further confidence in the credit and its ability to hit our aggressive expectations.

Hyperion's sales force has grown from 35 to 155 over the past 14 months, and they are hiring approximately 10-15 new personnel per month. We expect them to reach 280 sales personnel by the end of Fiscal 1999. This is the infrastructure that the company needs as it approaches the 50,000 plus lines per quarter level of growth that we think it can achieve over the next twelve months.

## Overview

Hyperion Telecommunications, Inc. is a 66% owned subsidiary of Adelphia Communications. Hyperion has 22 networks, including 4 still under construction, in partnership with local cable companies and electric utilities networks throughout the East Coast and South (see operating companies statistics in Table 4). Over the next 18 months, we expect Hyperion to expand its switched networks reaching 29 markets, 210 central offices with 8,100 route miles.

Hyperion has constructed its networks with local partners to minimize capital spending on build-out and gain from synergies such as utility owned conduit. Generally, Hyperion has bought out its local partners after the networks were completed. As a rule of thumb, Hyperion usually tries to pay 1.5x PP&E in cash or common stock when consolidating its ownership of specific networks. Hyperion today owns 76% of the operating networks that it has invested and management has expressed plans to increase its ownership to around 85% over the next year.

Hyperion Telecommunications currently offers switched-based local telephone service in 22 markets. It also offers other services such as frame relay (data), Internet access, video conferencing, and direct access to long distance networks. Hyperion recently began offering long distance to its customers (resale) at the end of 1997. Its targeted customers include small, medium and large businesses, governments, and major long distance companies.

Leading Hyperion is John J. Rigas as the Chairman and Director of Hyperion. He is the founder and Chief Executive of Adelphia. He has an extensive background in the cable industry where he has owned and operated cable systems since 1952. His sons, James, Michael, and Timothy are the CEO, Vice Chairman, and CFO, respectively. Daniel Milliard is the Chief Operating Officer of Hyperion and is totally dedicated to the day to day execution of the Hyperion business plan. Dan has over fifteen years with Adelphia and a legal background, which is very applicable in running a company competing in a regulatory intensive industry.

Over the past four quarters, Hyperion has focused mainly on building its networks, installing switches, and establishing a Network Operating and Control Center. Throughout this build-out phase customer growth has remained modest, but Hyperion has maintained very minimal EBITDA losses as well. We expect the priorities to shift for the company from adding networks to growing customers and revenues while still maintaining EBITDA losses at a low level. In the future, we expect Wall Street to judge the company by these growth metrics.

Financials

In Table 3, we present our EBITDA and FCF model for Hyperion. We are using non-GAAP proportionate share accounting to best represent Hyperion's performance for investors. Hyperion owns 76% of all its networks, but our revenues and expenses in the model reflect the weighted ownership performance for each of Hyperion's separate markets. That is why Hyperion's revenues are not simply 76% of its operating companies' revenues, which are shown in Table 4.

We expect Hyperion to grow its revenues aggressively for the next five years. Local service revenues are expected to surpass dedicated access revenues by the 2<sup>nd</sup> quarter of FY 1999 and account for a major portion of Hyperion's forecast growth. Local services is currently 27% of total sales, but we expect it to make-up over 70% of Hyperion's revenues by March of 2001. The growth of local services carried on Hyperion's network is key for the company to reach profitability.

In the near-term, we expect Hyperion's gross margin to decline or remain flat with the 56% achieved in the March 1998 quarter. Hyperion is rapidly expanding its access lines in all built-out markets and a few markets where network construction is not completed. The lines in newer unfinished markets are being resold through the incumbent telcos, which is a much lower gross margin than on-net customers. By March of 1999, we expect Hyperion's gross margin to have bottomed out and should start expanding toward the 60% range in FY 2000. The shifts in Hyperion's gross margin are driven by the mix of resale lines as a percent of total lines. By March of 1999, Hyperion's on-net lines will be a substantial base, so new temporary resold lines will effect the gross margin much less in the out years.

We expect Hyperion's sales, general and administrative (SG&A) expenses to continue to grow rapidly in FY 1999 but at a slower rate than revenues. EBITDA losses for FY 1999 are expected to be lower as a percent of revenues than in FY 1998. We expect Hyperion to hit its first EBITDA positive quarter by the end of FY 1999 (March of 2000).

Currently, Hyperion has \$500 million in cash when including its restricted securities and the recent equity offering by the company. This nearly funds the company's plan through March of 2000. We estimate that the company's operations and capital expenditures should require \$460 million over the next two years and its cash interest payments total another \$75 million for the same time period. Because of the \$25 million difference between cash on hand and levered FCF, we expect the company to return to the high yield market or initiate a bank line in FY 2000.

For our five-year forecast, we estimate that the company will require a net funding of \$420 million through March of 2004. Both of the company's high yield bonds are due in FY 2004, so it will need to raise additional capital in that year. When the company faces this capital-raising requirement, it should have much more favorable credit ratios as shown in our model.

Hyperion

Table 3  
Hyperion's Proportionate EBITDA and FCF analysis

\$ in Millions	30-Jun Q1/96	30-Sep Q2/96	31-Dec Q3/96	31-Mar Q4/96	Mar-96 FY96	30-Jun Q1/96	30-Sep Q2/96	31-Dec Q3/96	31-Mar Q4/96	Mar-99 FY99	Mar-00 FY00	Mar-01 FY01	Mar-02 FY02	Mar-03 FY03	Mar-04 FY04
Local Service revenues	0.12	0.27	1.03	1.60	3.02	2.47	6.58	13.16	18.91	41.12	170.11	338.00	514.27	678.64	841.69
Growth seq/ty		120%	286%	55%	17%	54%	167%	100%	44%	1261%	314%	99%	52%	32%	24%
% of sales	4%	7%	21%	27%	0.20	31%	47%	55%	53%	50%	67%	71%	72%	72%	71%
Long distance						0.31	0.92	1.97	2.95	6.16	30.64	60.89	105.88	139.72	194.95
Growth seq/ty						54%	200%	113%	50%	2978%	398%	99%	74%	32%	40%
% of sales	0%	0%	0%	3%	1%	4%	7%	8%	8%	8%	12%	13%	15%	15%	17%
Dedicated Access Revenues	2.68	3.48	3.90	4.22	14.28	5.16	6.39	8.99	14.00	34.56	53.60	75.70	98.70	120.23	142.92
Growth seq/ty		30%	12%	8%		23%	23%	41%	56%	142%	55%	41%	30%	22%	19%
% of sales	96%	93%	79%	70%	82%	65%	46%	37%	39%	42%	21%	16%	14%	13%	12%
Total Revenues	2.80	3.74	4.93	6.02	17.50	7.96	13.90	24.11	35.87	81.84	254.35	474.59	718.84	938.58	1,179.57
Growth seq/ty		34%	32%	22%	125%	32%	75%	74%	49%	368%	211%	87%	51%	31%	26%
Network operations	1.72	2.03	2.72	2.65	9.12	3.66	6.25	10.61	15.48	36.01	101.74	175.60	265.97	347.28	436.44
Gross margin	38%	46%	45%	56%	48%	54%	55%	58%	57%	56%	60%	63%	63%	63%	63%
SG&A	4.54	5.35	5.92	7.86	23.66	9.95	14.59	20.50	27.39	72.43	147.52	246.79	309.10	333.43	387.96
% of sales	162%	143%	120%	130%	135%	125%	105%	85%	76%	89%	58%	52%	43%	36%	33%
Depreciation & amortization	3.77	5.38	5.98	7.31	22.43	9.40	9.40	11.00	12.50	42.30	55.66	75.91	95.26	113.48	131.48
% of sales	135%	144%	121%	121%	128%	118%	68%	46%	35%	52%	22%	16%	13%	12%	11%
Operating Income	(7.23)	(9.01)	(9.69)	(11.79)	(37.72)	(15.05)	(16.35)	(17.99)	(19.50)	(68.90)	(50.57)	(23.70)	(48.51)	(257.88)	(355.17)
EBITDA	(3.46)	(3.63)	(3.71)	(4.48)	(15.28)	(5.65)	(6.95)	(6.98)	(7.00)	(26.60)	(5.09)	(2.21)	(143.77)	(257.88)	(355.17)
EBITDA margin											2%	11%	20%	27%	30%
Interest Expense	(3.5)	(3.6)	(3.7)	(4.5)	(15.3)	(5.7)	(6.9)	(7.0)	(7.0)	(26.6)	(5.1)	(52.2)	(143.8)	(257.9)	(355.2)
Non-Cash Interest Expense	(7.4)	(10.5)	(16.4)	(16.6)	(50.9)	(15.4)	(15.7)	(15.9)	(16.2)	(63.2)	(76.7)	(83.2)	(125.2)	(122.1)	(98.5)
Cash Interest	6.3	6.5	6.7	6.9	26.4	7.1	7.4	7.6	7.8	30.0	34.0	38.5	4.0	9.5	5.3
Interest Income	(1.1)	(4.0)	(0.7)	(0.7)	(4.5)	(8.3)	(8.3)	(8.3)	(8.3)	(33.2)	(42.7)	(44.6)	(12.2)	(12.6)	(98.5)
Dividends	0.8	1.5	5.7	5.3	13.3	3.5	3.7	2.8	2.8	12.7	11.0	8.0	7.0	3.0	2.5
Non-cash dividends paid	-	-	(4.2)	(6.5)	(10.7)	(6.7)	(6.9)	(7.1)	(7.3)	(28.0)	(31.7)	(35.9)	(40.7)	(46.2)	(48.1)
Cash dividends paid	-	-	4.2	6.5	10.7	6.7	6.9	7.1	7.3	28.0	31.7	35.9	40.7	(20.0)	(48.1)
Cash dividends paid	(37.3)	(19.1)	(24.6)	(51.9)	(132.9)	(52.0)	(50.0)	(55.0)	(45.0)	(202.0)	(225.0)	(220.0)	(200.0)	(175.0)	(175.0)
Capex	-	(7.6)	-	(58.3)	(66.0)	(6.0)	(10.0)	-	-	(10.0)	-	-	-	-	-
Acquisitions/Sale of subs	1.9	11.0	4.0	4.9	21.8	(6.0)	-	-	-	(6.0)	-	-	-	-	-
Working capital/other	(39.2)	(21.8)	(28.3)	(114.3)	(203.6)	(68.5)	(71.6)	(67.6)	(57.6)	(265.1)	(251.6)	(204.4)	(170.4)	(55.8)	(36.1)
FCF	59.8	213	237.7	417.9	59.8	301.3	434.8	363.3	295.7	301.3	238.2	186.5	132.1	61.7	6.0
Cash at beginning of period	0.7	238.2	208.4	(2.3)	445.0	202.0	363.3	295.7	238.2	202.0	200.0	150.0	100.0	6.0	(30.0)
Capital Raised/(retired) net	21.3	237.7	417.9	301.3	301.3	434.8	363.3	295.7	238.2	238.2	186.5	132.1	61.7	6.0	12.1
Reported Cash at end of period															
Gross PP&E (in millions)															
Source: Credit Suisse First Boston High Yield Research.															

## Hyperion

Table 3 Con't.  
Hyperion's Proportionate EBITDA and FCF analysis

\$ in Millions	30-Jun Q1/98	30-Sep Q2/98	31-Dec Q3/98	31-Mar Q4/98	Mar-98 FY98	30-Jun Q1/99E	30-Sep Q2/99E	31-Dec Q3/99E	31-Mar Q4/99E	Mar-99 FY99E	Mar-00 FY00E	Mar-01 FY01E	Mar-02 FY02E	Mar-03 FY03E	Mar-04 FY04E
Capital Structure (\$ in millions)															
Debt Issues:															
13% Sr. Disc. Notes due 04/03	203	210	216	223	223	230	238	245	253	253	287	326	329	329	
12.25% Sr. Secured Nts due 03/04		250	250	250	250	250	250	250	250	250	250	250	250	250	127
Other Debt/Capitalized Leases	28	38	64	64	64	27	27	27	27	27	27	27	127	127	
Additional Issues															
Total Debt	231	498	530	537	537	507	515	522	530	530	764	953	1,056	1,056	1,027
Net Debt	210	260	112	235	235	72	151	227	292	292	578	821	994	1,050	1,015
Redeemable Preferred Stock			204	211	211	217	224	231	239	239	270	306	347	373	373
Common shares in millions						57	57	58	59	59	60	62	64	66	68
Price						16	17	18	19	20	25	28	29	32	34
Market Cap						932	988	1,048	1,111	1,170	1,507	1,707	1,854	2,108	2,307
Enterprise Value						1,221	1,364	1,506	1,642	1,701	2,355	2,834	3,196	3,531	3,695
Ratios															
EBITDA/Interest											0.1x	0.6x	1.1x	2.1x	3.6x
(EBITDA-Capex)/Cash Interest											113.5x	15.7x	6.9x	4.1x	1.8x
Net debt/EBITDA											36%	40%	42%	40%	38%
(Net debt-ppd)/EV											1.3x	1.1x	1.1x	1.2x	1.4x
Gross PP&E/net debt											3.2x	3.1x	2.8x	2.7x	2.5x
Enterprise Value/Gross PP&E															

Source: Credit Suisse First Boston High Yield Research.

**Table 4**  
**Hyperion Operating Clusters**

(\$ in Millions) (Fiscal Year ends March 31)	Mar-97 FY97	30-Jun Q1/98	30-Sep Q2/98	31-Dec Q3/98	31-Mar Q4/98	Mar-98 FY98
<b>Northeast - Buffalo, Syracuse, Vermont, Albany</b>						
Revenues	5.55	1.53	2.07	2.39	2.50	8.48
Percent of total	36%	29%	33%	31%	28%	30%
EBITDA	0.59	(0.46)	0.23	0.14	(0.05)	(0.14)
Capex	28.65	5.20	3.99	9.59	7.84	26.61
Percent of total	22%	11%	16%	20%	14%	15%
Gross PPE				71.61	88.06	
Percent of total				18%	20%	
<b>Operating Statistics</b>						
Networks in operation			3	3		
Access lines sold			4,426	6,054		
Percent of total			28%	22%		
Access lines installed			1,584	2,723		
Percent of total			29%	23%		
Route Miles	1,126	1,128	916	1,285	1,530	
Fiber Miles	54,060	54,156	43,958	53,947	65,712	
Buildings Connected	336	366	325	334	356	
LEC-CO allocated		14	12	12	14	
VGEs	122,472	132,288	116,256	155,904	177,048	
<b>Mid-Atlantic - Charlottesville, Va. Hamsburg, Morristown, New Brunswick, Philadelphia, Richmond, Scranton/Wilkes-Barre, York, "ABER" (additional networks should be built with Allegheny Energy in portions of Maryland, Ohio, Pennsylvania, Virginia, and West Virginia...as announced on Dec 1, 1997)</b>						
Revenues	2.23	1.19	1.51	2.38	2.90	7.98
Percent of total	15%	22%	24%	31%	32%	28%
EBITDA	(3.68)	(1.16)	(1.99)	(2.34)	(1.32)	(6.81)
Capex	67.89	21.00	6.91	15.33	21.30	64.54
Percent of total	53%	43%	28%	32%	39%	37%
Gross PPE				132.25	186.83	
Percent of total				33%	42%	
<b>Operating Statistics</b>						
Networks in operation			7	7		
Access lines sold			5,375	15,042		
Percent of total			34%	54%		
Access lines installed			1,435	4,812		
Percent of total			26%	41%		
Route Miles	1,093	1,248	1,293	1,330	1,914	
Fiber Miles	52,455	59,885	62,057	63,858	91,872	
Buildings Connected	370	457	518	576	613	
LEC-CO allocated		59	59	59	61	
VGEs	144,792	170,304	178,896	367,560	434,832	

Note: Hyperion owns approximately 76% of the total combined operating clusters  
Source: Credit Suisse First Boston High Yield Research

Table 4 con't.  
Hyperion Operating Clusters

<i>\$ in Millions</i>	Mar-97 FY97	30-Jun Q1/98	30-Sep Q2/98	31-Dec Q3/98	31-Mar Q4/98	Mar-98 FY98
<b>Mid-South - Lexington, KY, Louisville, KY, Nashville, TN, Baton Rouge, LA, Jackson, MS, Little Rock, AR</b>						
Revenues	1.26	0.43	0.52	0.50	1.05	2.51
Percent of total	8%	8%	8%	7%	12%	9%
EBITDA	(0.50)	(0.28)	(0.76)	(1.31)	(1.88)	(4.22)
Capex	19.46	10.26	10.37	20.05	11.30	51.98
Percent of total	15%	21%	41%	42%	21%	29%
Gross PPE				67.38	84.32	
Percent of total				17%	19%	
<b>Operating Statistics</b>						
Networks in operation			3	6		
Access lines sold			1,874	4,444		
Percent of total			12%	16%		
Access lines installed			256	1,298		
Percent of total			5%	11%		
Route Miles	484	506	579	934	1,142	
Fiber Miles	23,232	24,283	27,778	44,844	54,792	
Buildings Connected	229	436	455	516	589	
LEC-CO allocated		17	18	21	21	
VGEs	47,400	64,488	67,080	80,016	136,512	
<b>Other Networks - Jacksonville, FL, Wichita, KS</b>						
Revenues	6.18	2.20	2.18	2.38	2.59	9.35
Percent of total	41%	41%	35%	31%	29%	33%
EBITDA	1.92	0.61	0.64	0.77	0.73	2.75
Capex	12.27	12.63	3.84	2.36	14.39	33.22
Percent of total	10%	26%	15%	5%	26%	19%
Gross PPE				80.17	82.50	
Percent of total				20%	19%	
<b>Operating Statistics</b>						
Networks in operation			2	2		
Access lines sold			2,653	3,246		
Percent of total			17%	12%		
Access lines installed			2,225	2,886		
Percent of total			40%	25%		
Route Miles	758	758	773	777	777	
Fiber Miles	36,384	36,384	37,152	37,296	37,296	
Buildings Connected	335	344	347	350	351	
LEC-CO allocated		16	16	16	17	
VGEs	151,392	164,064	158,496	187,800	247,248	

Note: Hyperion owns approximately 76% of the total combined operating clusters

Source: Credit Suisse First Boston High Yield Research

## Hyperion

Table 4 Con't  
Hyperion Operating Clusters

\$ in Millions (Fiscal Year ends March 31)		Mar-97 FY97	30-Jun Q1/98	30-Sep Q2/98	31-Dec Q3/98	31-Mar Q4/98	Mar-98 FY98	30-Jun Q1/99	30-Sep Q2/99	31-Dec Q3/99	31-Mar Q4/99	Mar-99 FY99
Combined Clusters Performance												
Access lines sold (cumulative)		7,000	11,000	16,000	28,000	41,500	41,500	61,500	90,500	129,500	176,500	176,500
Access lines sold in period			4,000	5,000	12,000	13,500		20,000	29,000	39,000	47,000	135,000
Growth				25%	140%	13%		48%	45%	34%	21%	
Access lines installed (cumulative)		1,200	2,800	5,500	11,720	23,120	23,120	43,120	71,120	110,120	160,120	160,120
Growth				96%	113%	97%		87%	65%	55%	45%	
Access lines installed in period			1,600	2,700	6,220	11,400	20,320	20,000	28,000	39,000	50,000	137,000
Growth				69%	130%	83%		75%	40%	39%	28%	
Backlog				10,500	16,280	18,380		18,380	19,380	19,380	16,380	6,380.00
Switched Revenues Est.			0.40	0.66	1.65	3.30	6.21	6.90	10.50	16.76	25.44	58.71
Growth seq/yr				115%	92%	100%		81%	75%	60%	52%	845%
Average monthly revenue per line				\$ 69.08	\$ 63.88	\$ 63.15		\$ 60.25	\$ 61.25	\$ 61.75	\$ 62.75	61.50
Long distance resale								0.31	0.92	1.97	2.95	6.16
Growth seq/yr			4.94	5.42	6.00	5.75	22.11	7.06	200%	113%	50%	
Dedicated Access Revenues Est				10%	11%	-4%		23%	8.70	12.23	19.06	47.05
Growth seq/yr								23%	23%	41%	56%	113%
Total Revenues		15.22	5.34	6.28	7.65	9.05	28.32	13.35	20.12	30.99	47.45	111.91
Growth seq/yr		96%	2%	18%	22%	18%	86%	48%	51%	54%	53%	295%
EBITDA		(1.67)	(1.28)	(1.88)	(2.74)	(2.51)	(8.42)	(2.80)	(2.50)	(2.50)	(2.50)	(10.30)
Capex (excluding roll-up spending)		128.27	49.08	25.11	47.34	54.83	176.36	54.00	60.00	65.00	57.00	236.00
Operating Satellites												
Networks in operation		3,461	3,640	3,561	4,744	5,363	22					
Route Miles		166,131	174,708	170,945	220,010	249,672	249,672					
Fiber Miles		1,270	1,603	1,645	1,776	1,909	1,909					
Buildings Connected		104	106	105	108	113	113					
LEC-CO allocated		466,056	531,144	520,728	791,280	995,640	995,640					
VGEs		7	8	13	16	17	17	19	20	23	28	
Switches in operation												
Gross PPE of networks NOCC, HQ		237	286	313	402	442	442					
% ownership of all networks			66%	73%	76%	76%	76%					
Hyperion's Gross PPE			190	228	305	336	336					
Employees (Hyperion and operating companies)		261			425							
Salesforce		35		70	104	128	128	158	194	233	272	272

Note: Hyperion owns approximately 76% of the total combined operating clusters

Source: Credit Suisse First Boston High Yield Research

**Americas**

Eleven Madison Avenue  
New York, NY 10010, U.S.A.  
(1) 212 325 2000

Atlanta	(1) 404 656 9500	Mexico City	525 202 6000
Boston	(1) 617 556 5500	Philadelphia	(1) 215 851 1000
Buenos Aires	(1) 541 394 3100	Portland	(1) 207 780 6210
Chicago	(1) 312 750 3000	San Francisco	(1) 415 765 7000
Houston	(1) 713 220 6700	São Paulo	(55 11) 822 4862
Los Angeles	(1) 213 253 2000	Toronto	(1) 416 947 2600

**Europe**

One Cabot Square  
London E14 4QJ, England  
44 1 71 888-8888

Amsterdam	(31) 20 575 4444	Paris	(33) 1 40 76 8888
Budapest	(36) 1 202 2188	Prague	(42) 2 248 10937
Frankfurt	(49) 69 7534 0	Vienna	(43) 1 512 3023
Geneva	(41) 22 707 0130	Warsaw	(48) 2 630 5656
Madrid	(34) 1 595 9988	Zug	(41) 41 726 1020
Milan	(39) 2 77702 1	Zurich	(41) 1 335 7220
Moscow	(7) 501 967 8200		

**Pacific**

Shiroyama Hills  
4-3-1 Toranomom  
Minato-ku, Tokyo 105, Japan  
813 4504 9000

Auckland	(64) 9 302 5500	Seoul	(82) 2 399 7355
Beijing	(86) 10 501 4508	Singapore	(65) 226 5088
Hong Kong	(852) 2847 0388	Sydney	(61) 2 394 4400
Melbourne	(61) 3 280 1666	Wellington	(64) 4 474 4400
Osaka	(81) 6 243 0789		

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**DOCKET NO. 98-00732**

**Hyperion Communications of Tennessee, L.P. - Responses to David Hood's Oral Data  
Requests of May 13, 1999**

**EXHIBIT 2**

**HYPERION TELECOMMUNICATIONS, INC.'S ANNUAL REPORT**

ANNUAL REPORT 1998

**Hyperion**  
COMMUNICATIONS



# The Power of Your





Hyperion Communications is dedicated to improving the way businesses communicate.

We construct and maintain state-of-the-art fiber optic networks that serve as the backbone for our robust array of services, including local dial tone, long distance, dedicated access, high-speed data and Internet services.

Businesses are recognizing Hyperion's powerful combination of technology, service and value, and they're switching to us in record numbers. We're already one of the most established Competitive Local Exchange Carriers (CLECs) in the United States. And, as you'll gather from this annual report, Hyperion is positioned to become a leader in the industry.

## HYPERION PROGRESS



Adelphia Communications Corporation forms Hyperion Telecommunications, Inc.

Telecommunications Act of 1996 allows competition in the local service market.

Hyperion shifts strategic focus from carrier-to-carrier to business end-user in response to changing market conditions.

Hyperion raises an additional \$250 million in a high-yield debt offering.

Partnership roll-up transactions are completed in six markets, increasing Hyperion's weighted average ownership in its networks to 76 percent.

October

February

Late

August

February

August

April

January

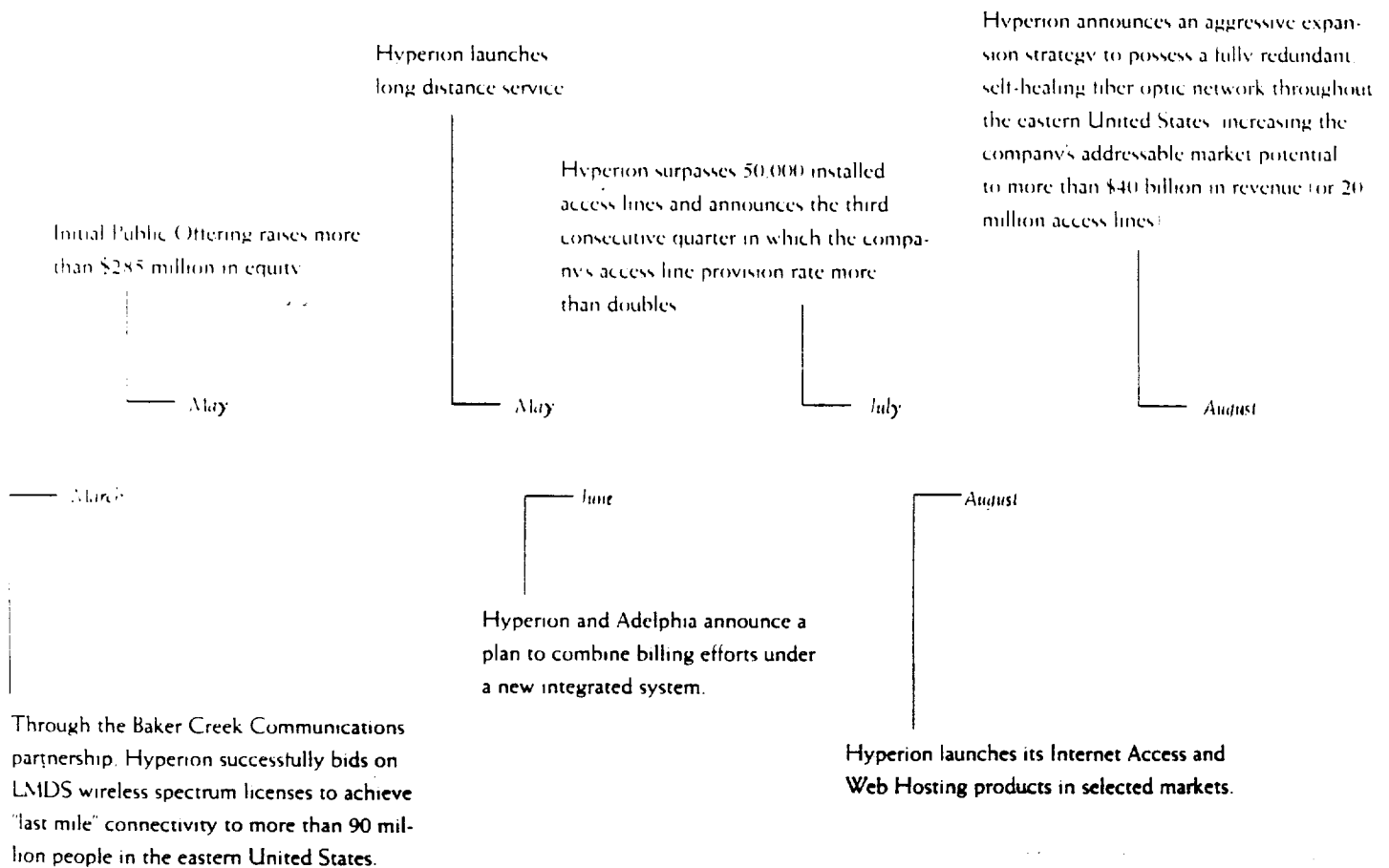
October

Hyperion begins operation of the company's first competitive access network in Syracuse, NY.

Hyperion raises \$175 million in its first high-yield debt offering, allowing us to more aggressively respond to the opening telecommunications market.

Hyperion begins offering local dial tone in selected markets.

Hyperion successfully places a \$200 million preferred stock issuance, increasing the company's invested capital to approximately \$700 million.





## TO OUR CUSTOMERS, EMPLOYEES, PARTNERS AND SHAREHOLDERS:

The telecommunications industry is in the midst of dynamic times characterized by new technologies, new products and applications, new competitors and rapid consolidation. These factors stimulate dramatic changes, as well as create tremendous opportunities for everyone involved. Since the birth of Hyperion in 1991, we have been at the center of this transformation, and as a result, have realized an extensive business opportunity. We are both excited and proud to share Hyperion's significant progress and future direction in our first annual report.

### 1998 HIGHLIGHTS

Hyperion has successfully transitioned from a competitive access provider (CAP) to one of the largest facilities-based competitive local exchange carriers (CLECs) in the eastern half of the United States. In the past year, we increased our emphasis on local communication services, enhanced our infrastructure to support rapid growth, developed new markets and products, and secured the financing required to support our plans.

We expanded our direct sales force to more than 175 sales professionals who are leading the charge to position Hyperion's local and long distance services. Internet services have expanded our portfolio of offerings in the third quarter of 1998, and data services are anticipated to launch in the first quarter of 1999, making Hyperion a leading provider of integrated communication services to businesses. We will continue to expand our direct sales channel, as well as nurture indirect channels of select agents to drive sales of our entire portfolio of communication services.

Our operational accomplishments are reflected in the growth of our customer base, as well as in the increase of installed local access lines. Intense focus on local switched services will result in our switched revenue surpassing our special access revenue during the first half of fiscal year 1999.

While our operational progress has been significant, our financial performance has been equally impressive. For the year ended March 31, 1998, Hyperion's proportionate share of revenues from its operating companies was \$17.5 million — a 125 percent increase from last year. The company's financial position was further strengthened by an Initial Public Offering (IPO) in May 1998 which generated more than \$285 million in new equity. In addition to the IPO, in August 1997 the company raised \$250 million in senior secured notes, and in October 1997 raised \$200 million in senior exchangeable redeemable preferred stock.

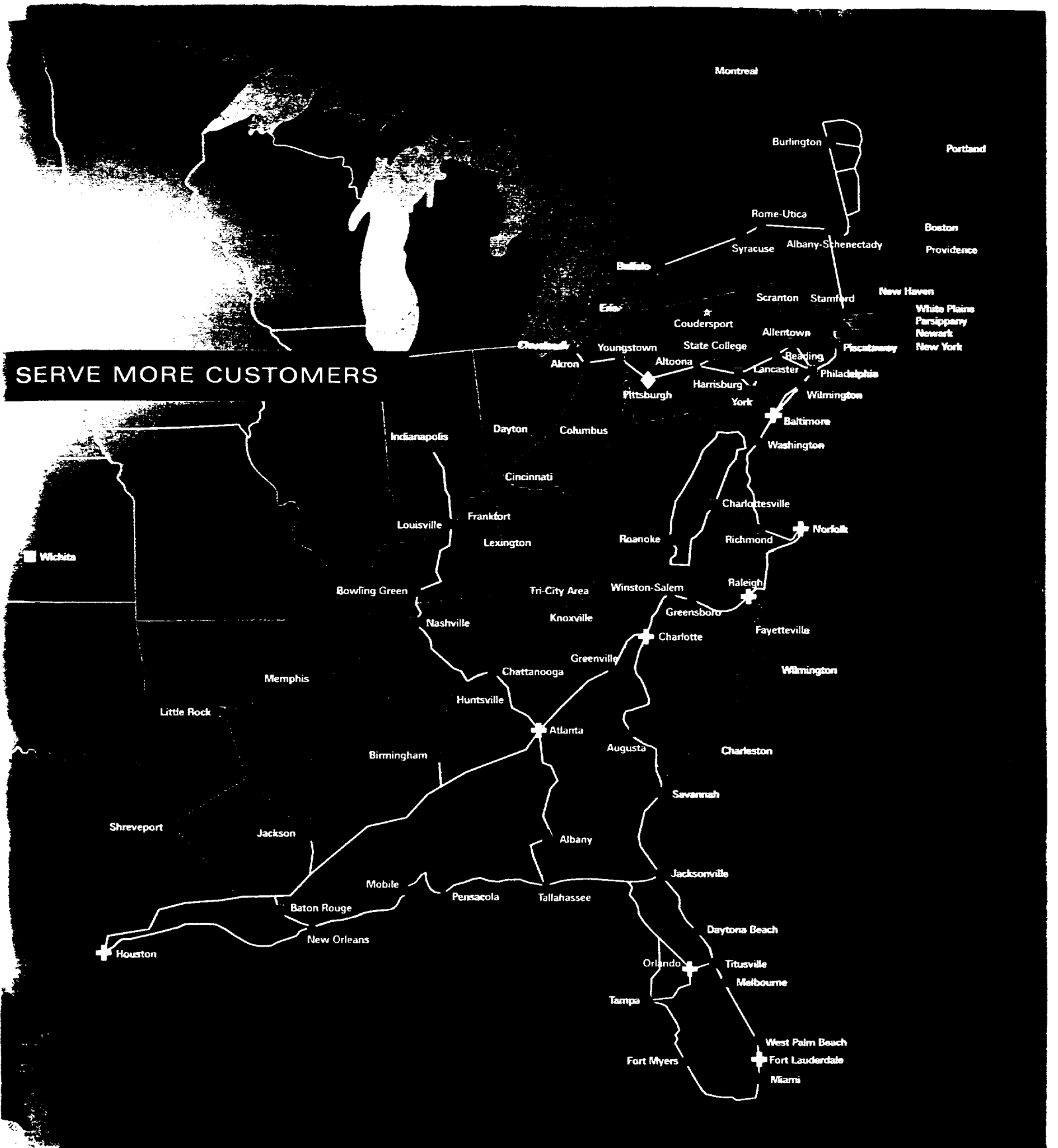
A significant portion of the funds generated will finance our expansion strategy. As a result, at the IPO date Hyperion's enterprise value had increased to approximately \$1 billion, up from approximately \$200 million just one year ago.

### EXPANSION STRATEGY

This year we successfully launched local communication services in five new markets. With these additions, Hyperion now operates in 20 geographic markets serving 46 cities in the eastern half of the United States. Two additional new markets are scheduled to begin offering services in late 1998.

In August 1998, we entered into a series of strategic agreements that will allow Hyperion to provide state-of-the-art fiber optic communications to most businesses in the eastern half of the United States. These agreements provide Hyperion with 8,100 new route miles of fiber, enabling us to cost effectively enter approximately 25 new first- and second-tier markets, and 25 new third-tier markets by the end of 2001. We plan to interconnect these new markets with our 22 existing networks, creating a fully redundant, self-healing fiber optic network. This expansion increases Hyperion's addressable market potential to more than 20 million business access lines, which represents a revenue opportunity of more than \$40 billion.

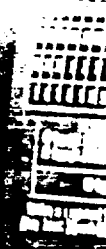
In addition to these expansion initiatives, we have implemented a continuing strategy to increase our ownership in several of our cable and energy partnerships. As a result, 11 operating networks are now 100 percent owned by Hyperion. Our proportionate share of the operating companies we own and manage has increased from 44 percent to 76 percent. We expect this trend to continue.



- Headquarters and NOCC
- ◆ Network Support Resources and Market Under Development
- + Regional Switch
- Existing Market and Local Switch
- Market Under Development
- Pending Market



## GETTING OUR CUSTOMERS ON



ver the years, we've learned a lot about what customers want from a communications provider. Customers want to receive their communications services from a single supplier. They want a provider that tailors a communications solution to fit their current needs and offers new, innovative services to prepare them for the future.

## THE RIGHT TRACK

Hyperion's philosophy is simple:  
Give customers what they want.

Hyperion builds customized solutions from a robust array of services, including local dial tone, long distance, dedicated access and high-speed data and Internet services. Our products and services are designed to fulfill the current and future needs of our customers, and we attractively position them by focusing on customer benefits. Since each of our products and services target different needs and applications, we organize them into categories called "Tracks" to help customers select the appropriate combination of offerings. At Hyperion, we are committed to helping our customers succeed by getting them on the "right track."

### HYPERION LOCAL TRACK

Hyperion Local Track provides customers with local dial tone and local data services and allows access to the long distance carrier of their choice, including Hyperion Long Distance. Our Business Line and Business Trunk products deliver basic local service. Hyperion's ISDN products provide a local service solution to customers with sophisticated communication needs, including videoconferencing, high-speed Internet connections and simultaneous use of phone fax data equipment.

### HYPERION GLOBAL TRACK

Hyperion Global Track extends the reach of our customers through domestic and international long distance services. Customers use Hyperion Long Distance as a reliable and affordable way to complete intrastate, interstate and international calls. Plus, Hyperion Calling Cards give customers the convenience of using Hyperion Long Distance anywhere and at any time.

### HYPERION INTERNET TRACK

Hyperion Internet Track provides customers with easy access to a worldwide marketplace through quick and cost-effective dial-up or dedicated Internet access. Plus, Hyperion provides customers with Internet support services to ensure they receive the most out of their investment.

### HYPERION DATA TRACK

Hyperion plans to launch a suite of data services during the first quarter of 1999. We will leverage our backbone network and technologies such as frame relay, ATM and IP to fulfill the data communication needs of our customers.

### HYPERION DIRECT TRACK

Hyperion Direct Track provides customers with a dedicated communications link between business locations or between business locations and an interexchange carrier. These non-switched communications channels are offered in a range of transmission capacities and accommodate the dedicated communication needs of businesses and institutions.

### HYPERION ADVANCED TRACK

Hyperion Advanced Track provides customers with integrated call services and an individualized dialing plan. Customers can receive advanced calling services at multiple locations without the need for duplicate systems. Plus, these services are easily upgradeable to ensure that our customers' phone systems are never outdated.

### HYPERION MAIL TRACK

Hyperion Mail Track provides customers with an electronic voice messaging system and gives them a convenient and dependable way to communicate with others. This enhanced service also allows customers to integrate their voice and e-mail systems.

With an extensive array of services available, and more on the horizon, Hyperion is an attractive choice to customers who want the convenience of an integrated communications solution.



It's important to  
our customers,  
it's important to us

At Hyperion, Customer Care is an integral part of our business. Customer Care is a service-oriented culture engrained within Hyperion that puts the customer first. We are committed to consistently exceeding our customers' expectations, knowing that each positive encounter with our company contributes to how Hyperion is perceived in the marketplace.



## ATTITUDE IS EVERYTHING

Our entire staff is dedicated to Customer Care. Our sales reps work with customers to develop tailored communications solutions. Provisioning teams seamlessly transition customers onto Hyperion networks. Our Network Operations Control Center provides around-the-clock coverage to ensure ultimate reliability. Our value-added products address the needs of the marketplace. And unlike many companies that offer centralized customer service from a distant location, Hyperion provides local Customer Care teams in every market we serve.

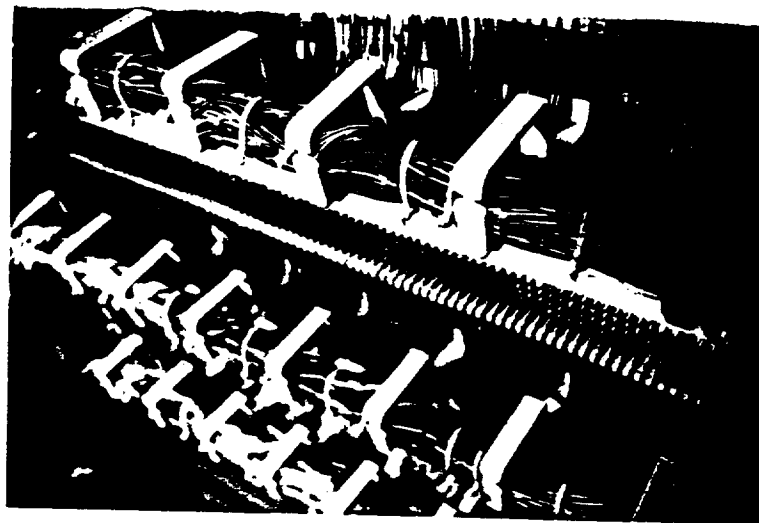
If it's important to our customers, it's important to us. This attitude has made Hyperion a leader in the communications industry and continues to guide our progress in every aspect of our business.







SHAPING THE



fully redundant and offer a powerful  
combination of speed, high bandwidth  
and superior reliability

## FUTURE OF COMMUNICATIONS

Hyperion's reputation for reliability begins with its advanced networks. Hyperion integrates leading-edge technologies that meet the demand for maximum bandwidth, maximum reliability and maximum value.

As a facilities-based service provider, Hyperion and its local partners have invested approximately \$500 million in the infrastructure of Hyperion and the operating companies. Our local backbone networks are 100 percent fiber optic self-healing rings utilizing synchronous optical network (SONET) technology. The SONET rings are fully redundant and offer a powerful combination of speed, high bandwidth and superior reliability.

Hyperion continues to increase the size and scope of its networks to position the company as a super-regional CLEC. Hyperion's use of Dense Wave Division Multiplexing SONET rings, along with the advanced technology of our Lucent 5ESS 2000 digital switches, will allow the company to regionalize the switching for both local and long distance traffic. A single switch will interconnect several markets via self-healing, high-capacity fiber rings. This enables Hyperion to carry a large portion of local and long distance traffic on its own fiber networks, further increasing reliability as well as pricing flexibility. Plus, this approach optimizes Hyperion's investment in transitioning from circuit-switched to the emerging packet-switched IP technologies.

Hyperion's Network Operations Control Center

protects our customers' vital communications

24 hours a day, seven days a week





When it comes to communications, reliability is the name of the game. And Hyperion is at the top of its game 24 hours a day,

seven days a week.

At the heart of Hyperion's communications infrastructure is the Network Operations Control Center located in Coudersport, Pennsylvania. Through active remote control, monitoring and diagnostics, the Center constantly tests all customer lines and troubleshoots any problems before they surface. When a service error occurs, our technicians immediately re-route network traffic and dispatch local crews to ensure minimal or no network downtime.

Hyperion's staff of networking and switching professionals also perform regular updates and enhancements to the system. Our people, our process and our technology make the Network Operations Control Center key to Hyperion's reputation for reliability.

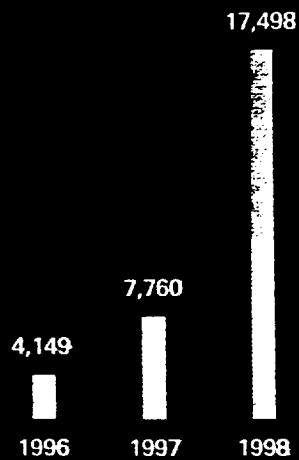


HYPERION'S NETWORK OPERATIONS CONTROL CENTER



## PROPORTIONATE REVENUE\*

(Dollars in thousands)



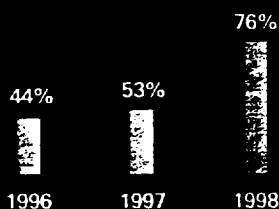
Proportionate revenue increased dramatically over the past three years due to the maturity of the networks, start-up of new services and the successful switching services.



## FINANCIAL REVIEW

## PROPORTIONATE OWNERSHIP PERCENTAGE†

Proportionate Ownership



As of March 31

Proportionate ownership improvement due to the "roll-up" transactions that resulted in 11 operating networks now 100 percent owned by Hyperion.

## ACCESS LINES

Access lines sold and installed continue to increase in line with management's expectations. Hyperion is currently installing more than 10,000 lines per month.

As of	Sold	Installed
6/30/97	11,100	2,300
9/30/97	16,000	5,100
12/31/97	28,000	11,000
3/31/98	41,500	23,000
6/30/98	64,000	37,000

\* Proportionate revenue reflects the collective sum of Hyperion and Hyperion's economic interest in each of the operating companies that Hyperion owns and manages at Hyperion's current ownership percentage. Proportionate revenue is presented as if Hyperion's current ownership percentage of its operating companies was in place during all periods presented. While this presentation is not in accordance with GAAP, management believes that this presentation better depicts the operational performance of Hyperion.

## Hyperion Telecommunications, Inc. and Subsidiaries

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except per share amounts)

ASSETS:	March 31, 1997	March 31, 1998
Current assets:		
Cash and cash equivalents	\$ 59,814	\$ 230,750
Other current assets	768	4,434
Total current assets	60,582	235,184
U.S. government securities - pledged	—	70,535
Investments	44,685	50,116
Property, plant and equipment - net	53,921	250,633
Other assets - net	15,413	28,425
Total	\$ 174,601	\$ 634,893
<b>LIABILITIES, PREFERRED STOCK, COMMON STOCK AND OTHER STOCKHOLDERS' EQUITY (DEFICIENCY)</b>		
Current liabilities:		
Accounts payable	\$ 2,342	\$ 11,775
Due to affiliates - net	6,081	1,442
Other current liabilities	757	4,687
Total current liabilities	9,180	17,904
13% Senior Discount Notes due 2003	187,173	215,213
12 1/4% Senior Secured Notes due 2004	—	250,000
Note payable - Adelphia	25,855	35,876
Other debt	2,647	27,687
Total liabilities	224,855	546,680
12 7/8% Senior Exchangeable Redeemable Preferred Stock due 2007	—	207,204
Common stock and other stockholders' equity (deficiency):		
Class A Common Stock, \$0.01 par value, 300,000,000 shares authorized, 338,000 and 396,500 shares outstanding, respectively	3	4
Class B Common Stock, \$0.01 par value, 150,000,000 shares authorized and 32,500,000 shares outstanding	325	325
Additional paid in capital	153	179
Class A Common Stock Warrant	—	13,000
Class B Common Stock Warrants	11,087	11,087
Loans to stockholders	(3,000)	(3,000)
Accumulated deficit	(58,822)	(140,586)
Total common stock and other stockholders' equity (deficiency)	(50,254)	(118,991)
Total	\$ 174,601	\$ 634,893

## Hyperion Telecommunications, Inc. and Subsidiaries

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share amounts)

	Year Ended March 31,		
	1996	1997	1998
Revenues	\$ 3,322	\$ 5,088	\$ 13,510
Operating expenses:			
Network operations	2,690	3,432	7,804
Selling, general and administrative	3,084	6,780	14,314
Depreciation and amortization	1,184	3,945	11,477
Total	6,958	14,157	33,595
Operating loss	(3,636)	(9,069)	(20,085)
Other income (expense):			
Gain on sale of investment	—	8,405	—
Interest income	199	5,976	13,304
Interest expense and fees	(6,088)	(28,377)	(49,334)
Loss before income taxes and equity in net loss of joint ventures	(9,525)	(23,065)	(56,115)
Income tax benefit (expense)	197	(259)	—
Loss before equity in net loss of joint ventures	(9,328)	(23,324)	(56,115)
Equity in net loss of joint ventures	(4,292)	(7,223)	(12,967)
Net loss	(13,620)	(30,547)	(69,082)
Dividend requirements applicable to preferred stock	—	—	(12,409)
Net loss applicable to common stockholders	\$ (13,620)	\$ (30,547)	\$ (81,491)
Basic and diluted net loss per weighted average share of common stock	\$ (0.42)	\$ (0.89)	\$ (2.33)
Weighted average shares of common stock outstanding	32,500	34,421	34,986

## Hyperion Telecommunications, Inc. and Subsidiaries

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Year Ended March 31,		
	1996	1997	1998
Cash flows from operating activities:			
Net loss	\$ (13,620)	\$ (30,547)	\$ (69,082)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	1,061	2,604	9,038
Amortization	123	1,341	2,439
Equity in net loss of joint ventures	4,292	7,223	12,967
Non-cash interest expense	6,088	23,467	34,038
Deferred income taxes	(206)	257	—
Gain on sale of investment	—	(8,405)	—
Issuance of Class A Common Stock bonus	—	156	27
Changes in operating assets and liabilities, net of effects of acquisitions:			
Other assets - net	(227)	(624)	(5,302)
Accounts payable and other liabilities - net	1,656	(295)	9,542
Net cash used in operating activities	(833)	(4,823)	(6,333)
Cash flows from investing activities:			
Net cash used for acquisitions	—	(5,040)	(65,968)
Expenditures for property, plant and equipment	(6,084)	(24,627)	(68,629)
Investment in fiber asset and senior secured note	—	(20,000)	—
Proceeds from sale of investment	—	11,618	—
Investments in joint ventures	(12,815)	(34,769)	(64,260)
Investments in U.S. government securities - pledged	—	—	(83,400)
Sale of U.S. government securities - pledged	—	—	15,653
Net cash used in investing activities	(18,899)	(72,818)	(266,604)
Cash flows from financing activities:			
Proceeds from issuance of preferred stock	—	—	194,522
Proceeds from sale and leaseback of equipment	—	—	14,876
Proceeds from debt	—	163,705	250,000
Repayments of debt	—	—	(2,326)
Proceeds from issuance of Class B Common Stock warrants	—	11,087	—
Costs associated with debt financing	—	(6,555)	(12,664)
Loans to stockholders	—	(3,000)	—
Borrowings on (repayment of) note payable - Adelphia	9,226	(25,000)	—
Advances from (to) affiliates	10,506	(2,782)	(535)
Net cash provided by financing activities	19,732	137,455	443,873
Net increase in cash and cash equivalents	—	59,814	170,936
Cash and cash equivalents, beginning of year	—	—	59,814
Cash and cash equivalents, end of year	\$ —	\$ 59,814	\$ 230,750

These condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements.

## INDEPENDENT AUDITORS' REPORT

Hyperion Telecommunications, Inc.:

We have audited the consolidated balance sheets of Hyperion Telecommunications, Inc. and subsidiaries as of March 31, 1997 and 1998, and the related consolidated statements of operations, of common stock and other stockholders' equity (deficiency) and of cash flows for each of the three years in the period ended March 31, 1998. Such consolidated financial statements and our report thereon dated June 10, 1998, expressing an unqualified opinion (which are not included herein), are included in Appendix A to the proxy statement for the 1998 annual meeting of stockholders. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of March 31, 1997 and 1998 and the related condensed consolidated statements of operations and cash flows for each of the three years in the period ended March 31, 1998 is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

*Deloitte & Touche LLP*

Pittsburgh, Pennsylvania

June 10, 1998

Hyperion Communications

**MANAGEMENT INFORMATION**

**Board of Directors and Senior Officers**

John J. Rigas  
Chairman and Director

James P. Rigas  
Vice Chairman,  
Chief Executive Officer and  
Director

Michael J. Rigas  
Vice Chairman and Director

Timothy J. Rigas  
Vice Chairman, Chief Financial  
Officer, Treasurer and Director

Daniel R. Milliard  
President,  
Chief Operating Officer,  
Secretary and Director

Charles R. Drenning  
Senior Vice President,  
Engineering and Operations,  
and Director

Randolph S. Fowler  
Senior Vice President,  
Business Development,  
Business Operations and  
Regulatory Affairs, and Director

Pete J. Metros  
Director  
President, Rapistan Demag  
Corporation

James L. Gray  
Director  
Chairman & CEO,  
PRIMESTAR Partners

**Company Officers**

Edward E. Babcock, Jr.  
Vice President  
Finance

Thomas W. Cady  
Vice President  
Marketing and Sales

Mark A. Erickson  
Vice President  
Operations

Ted A. Huf  
Vice President  
Engineering

John D. Lasater  
Vice President  
Industry Marketing and  
Major Account Sales

**Company Directors**

Robert L. Edleman  
Director  
Sales Channel Development

Phillip M. Fraga, Esq.  
Director  
Legal and Regulatory Affairs

Chris Keagle  
Director  
Network Operations Control Center

Janet S. Livengood, Esq.  
Director  
Legal and Regulatory Affairs

Kevin J. Rafferty  
Director  
New City Development

Dave Sullivan  
Director  
Operations Support Systems

Jack Wilson  
Director  
Product Marketing and Development

Hyperion Communications

**FIELD MANAGEMENT**

**Regional Management**

Robert E. Guth  
Regional Vice President

David L. Martin  
Regional Vice President

John Stroebele  
Regional Vice President

**General Management**

Richard E. Bruner  
Syracuse, New York

Barak A. Byers  
Somerset, New Jersey

Paul Carlisle  
Louisville, Kentucky

Jerry Gerasimou  
Buffalo, New York

Robert Frost  
Burlington, Vermont

Robert L. Hamlin  
Charlottesville, Virginia

Kathy M. Harriman  
Nashville, Tennessee

Brian Lippold  
Wichita, Kansas

Peter K. Murray  
Philadelphia, Pennsylvania

Kevin Shutters  
Little Rock, Arkansas

Hyperion Telecommunications, Inc.

## STOCKHOLDER INFORMATION

### Annual Meeting of Stockholders

The 1998 annual meeting of stockholders of Hyperion Telecommunications, Inc. will be held at 11:00 a.m. on Tuesday, October 6, 1998 at the Coudersport Theater, Main Street, Coudersport, Pennsylvania.

### Common Stock Information

Hyperion's Class A Common Stock is listed for trading on the National Association of Securities Dealers Automated Quotations System National Market System (NASDAQ-NMS). Hyperion's NASDAQ-NMS symbol is "HYPT."

### Dividend Policy

Hyperion has no plans to pay dividends on its common stock. Hyperion presently intends to retain any earnings to fund the growth of the company's business. The payment of any future dividends will be determined by the Board of Directors in light of the conditions then existing, including the company's results of operations, financial condition, cash requirements, restrictions in financing agreements, business conditions and other factors.

### Securities Exchange Act Registration

Hyperion Telecommunications, Inc.'s Class A Common Stock is registered pursuant to Section 12(g) of the Securities Exchange Act of 1934.

### Annual Report on Form 10-K

Copies as filed with the Securities and Exchange Commission are available by contacting:  
Hyperion Communications  
Investor Relations Department  
Main at Water Street  
Coudersport, PA 16915  
814-274-9830  
Fax 814-274-9863  
[www.hyperion.net](http://www.hyperion.net)

### Registrar and Transfer Agent

American Stock Transfer & Trust Company  
40 Wall Street  
New York, NY 10005

### Independent Auditors

Deloitte & Touche LLP  
2500 One PPC Place  
Pittsburgh, PA 15222

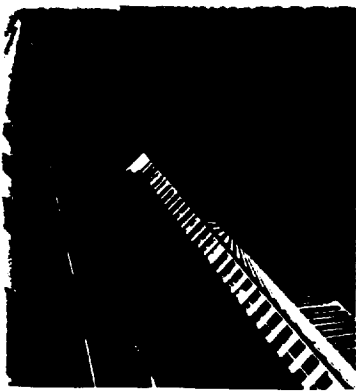
### Outside Counsel

Buchanan Ingersoll PC  
One Oxford Centre  
301 Grant Street  
Pittsburgh, PA 15219-1410

## FORWARD-LOOKING STATEMENTS

Throughout this report, we make numerous forward-looking statements regarding business strategies, market potential, future financial performance, product launches and other matters that involve many risks and uncertainties which could cause actual results to differ materially from such forward-looking statements. These forward-looking statements are based on the beliefs of management as well as assumptions made by and information currently available to management. Generally, potential risks and uncertainties include, but are not limited to, such factors as the continued health of the telecommunications industry and the overall economy; the ability of vendors to deliver required equipment and services; changes in law and regulations; changes in strategic relationships; competitive responses; access to capital resources; increases in external costs; and the overall market acceptance of Hyperion's proposed products and services. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. The Company does not intend to update these forward-looking statements.





## EXTENDING OUR REACH TO

Since Hyperion transitioned its strategic focus to business end-users, the company has experienced considerable growth in terms of revenue, network coverage, customer base, staffing and influence in the marketplace. And we have no intentions of slowing down.

Hyperion continues to progress as a major force in the communications industry with initiatives to increase the size and scope of its networks and offer a robust array of services in new markets in the eastern United States. Today, Hyperion operates in 20 geographic markets serving 46 cities. This represents more than 5,363 route miles of fiber in 11 states.

In July 1998, Hyperion Communications took a big step toward ensuring its future success by laying the foundation to become a super-regional CLEC throughout the eastern and southeastern United States. Over the next year and a half, Hyperion will develop a fully redundant, self-healing fiber optic network through the regional interconnection of its existing 20 markets with more than 50 new markets. This coverage is expected to increase the company's addressable market potential to more than 20 million business access lines equaling \$40 billion in annual revenue.

Through agreements with Qwest Communications, Williams Communications and several other fiber optic network providers, Hyperion has ownership or an indefeasible right of use of fiber representing over 8,100 new route miles.

Along with extensive coverage, the super-regional network provides the enabling architecture for Hyperion to extend its line of service offerings, including high-tech data applications such as IP, ATM and frame relay. These new services will complement our current product lines and further position Hyperion as a facilities-based one-stop-shop for business communications. Additionally, the network architecture implemented by Hyperion will allow the company to serve several markets from one central office switching location. This will result in higher capital utilization of traditional circuit switched technology, and will give Hyperion the flexibility to exploit emerging packet switched IP technologies and services.

Hyperion is committed to being a major influence in the communications industry. The infrastructure is in place for us to make a significant contribution to the explosive growth in the telecommunications market in the eastern United States. Our goal is quite simple: To offer the most comprehensive suite of communications services to businesses over advanced state-of-the-art fiber optic networks, ensuring a level of service, quality and customer care unsurpassed in our industry.

**How did Hyperion obtain the substantial funds needed to purchase these partnership interests and expand its business?**

**A** Hyperion has been very active in the capital markets over the past year. In August 1997, we sold \$250 million of 12.1% Senior Notes due 2004, and in October 1997, we sold \$200 million of 12.1% Senior Exchangeable Redeemable Preferred Stock due 2007. Combined net proceeds were more than \$435 million. This capital is being applied toward the acquisition of partnership interests and the continued expansion of our networks.

In addition, in May 1998, Hyperion completed a successful initial public offering. We sold 12.85 million shares of Class A Common Stock to the public and 3.32 million shares to Adelphia Communications Corporation. As a result of the initial public offering, Hyperion converted approximately \$44.3 million in debt to Adelphia for 3.64 million shares of stock, increasing Hyperion's equity by approximately \$285 million and providing more than \$240 million in cash to further fund our business plan.

**How do your account teams work with customers?**

**A** Hyperion's approach to customers is solutions-based. We train our teams to act as consultants, which means we focus on the client's needs. Our account executives work closely with customers to understand their applications and match the appropriate services to create a tailored communications solution.

Once a business becomes a Hyperion customer, we continue to work with them to ensure their solution addresses any changing business needs. This translates into a total solution that fulfills the needs of the customer — now and into the future.

**How is Hyperion's customer service unique to the industry?**

**A** We complement our tailored communications solutions with personalized Customer Care. Unlike many companies that offer customer service from a distant location, Hyperion has local Customer Care teams. We assign a local representative to each customer account. This representative is familiar with the customer, the business, and the community in which the business operates. At Hyperion, we focus on retaining current customers as much as we focus on gaining new ones.

**Are your back office systems able to keep up with your current and future growth?**

**A** Seven years ago, we designed and built an open, scalable back office system that allows us to quickly provision and meet our customers' needs. Our provisioning team brings new customers onto Hyperion networks quickly and seamlessly. Plus, we are continually improving our order entry system and streamlining our processes. Currently, Hyperion is transitioning to a convergent billing system that will allow us to bundle products on one invoice and, in turn, quickly adapt to the marketplace.



*Left to right: Randolph S. Fowler, Senior Vice President, Business Development, Business Operations and Regulatory Affairs; Edward E. Babcock, Jr., Vice President of Finance; Daniel R. Milliard, President and Chief Operating Officer; James P. Rigas, Chief Executive Officer; Charles R. Drenning, Senior Vice President, Engineering and Operations; Thomas W. Cady, Vice President, Marketing and Sales*

**Communications technology is rapidly changing. How will Hyperion remain competitive?**

**A** Hyperion is a facilities-based provider, which means we build and maintain our own networks. These networks are 100 percent fiber optic, fully redundant, self-healing SONET rings — the fastest, most reliable networks available. The development of Hyperion's super-regional network will be the foundation for Hyperion's success well into the future. These interconnected networks create the enabling architecture to extend our customer base, increase revenues, expand our line of service offerings and quickly roll out new products. Hyperion truly has a keen eye on the future of the industry.

**"The development of Hyperion's super-regional network will be the foundation for Hyperion's success well into the future."**

*Charles R. Drenning, Senior Vice President, Engineering and Operations*



## DISCUSSION WITH SENIOR MANAGEMENT

### **How did Hyperion Communications originate?**

**A** Hyperion Communications was formed in 1991 by Adelphia Communications Corporation, one of the largest cable television companies in the United States.

We started out as a competitive access provider (CAP), delivering dedicated connections between customer locations and interexchange carriers. With the deregulation of the telecommunications industry, we found ourselves well positioned to become a competitive local exchange carrier (CLEC), providing local communication services to businesses and institutions. Today, Hyperion is one of the largest CLECs in the eastern United States and we intend to continue our progress.

### **Can you describe the strategic direction of the company?**

**A** Hyperion Communications provides integrated communication services, including local switched, dedicated access, long distance, Internet, data and enhanced services. Our target market is business, government and educational end-users in the eastern half of the United States.

Our approach to the market is to build a fully interconnected super-regional network that serves as the enabling architecture for the rapid expansion of our target market as well as for the ability to quickly extend our service offerings. This strategy provides our customers with high-quality, reliable and efficient communication solutions. At the same time, our ability to keep most traffic on our own network allows Hyperion to earn greater margins and provide higher returns to our shareholders.

### **The company is growing rapidly. How are you managing this growth?**

**A** Hyperion is growing very rapidly in terms of revenue, customers, business access lines, geographic presence and employees. Building an infrastructure to support this growth is a primary focus of the company. Our initiatives include adding valuable human resources to our team,

establishing appropriate general business systems and procedures, and investing in our back office systems (order entry, provisioning and billing). Additionally, we have put in place a dedicated team to manage the expansion of our business and ensure that the required focus is maintained on day-to-day operations.

### **How does Hyperion achieve higher margins on telephony services than most competitors in the CLEC industry?**

**A** Broader networks and more on-net customers are key to Hyperion's high margins. Hyperion currently has many of the most substantial networks in the industry. We average more than 200 route miles per operating network, which is higher than most of our competitors. Through partnerships with local utility and cable companies, Hyperion has access to broad rights-of-way and local fiber construction expertise, which has lowered our average cost per fiber mile. As of March 31, 1998, over 80 percent of the 41,500 access lines sold were to customers served directly on Hyperion networks. On-net customers yield gross margins of more than 70 percent compared to lower margins from total service resale and unbundled loop.

### **Hyperion has recently purchased some of its local partnership interests. How will this affect the future success of the company?**

**A** Hyperion's purchase of some local partnership interests has increased the company's proportionate ownership percentage from 44 percent to 76 percent over the past two years. As part of the "roll-up" transactions, we entered into long-term lease agreements with our former partners. This allows Hyperion to preserve the integrity of the networks while continuing to keep fiber costs relatively low. Our simplified ownership structure is more attractive to investors, which translates into better access to the capital markets.

**"Broader networks and more on-net customers are key to Hyperion's high margins. Hyperion currently has many of the most substantial networks in the industry."**

*Edward E. Babcock, Jr., Vice President, Finance*

## PREPARING FOR THE FUTURE

Hyperion's expansion strategy will position the company to enter new markets rapidly and cost effectively; implement an infrastructure to provide both a long distance and Internet backbone network; and aggressively extend data services such as frame relay, ATM and IP. Additionally, our network architecture allows Hyperion to serve several markets from one central office switching location. This results in higher capital utilization of traditional circuit switch technology, and provides Hyperion with the flexibility to exploit emerging packet switched IP technologies and services.

The objective of these initiatives is to further position Hyperion as a super-regional CLEC and leading provider of integrated communication services to businesses in the eastern half of the United States.

## OUR CUSTOMERS

Beyond technology, networks, products and services, Hyperion places the customer at the core of its business philosophy. We have created local geographic teams responsible for building and sustaining customer loyalty.

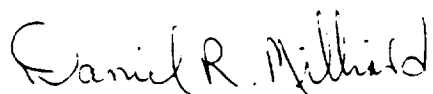
At the heart of these teams are local Customer Care representatives — close to the customer so they can respond quickly. This approach also enables the customer to work with a consistent, knowledgeable Hyperion support team.

Additionally, the Network Operations Control Center located in Coudersport, Pennsylvania, has diagnostic and remote repair capabilities. This state-of-the-art facility, operational 24 hours a day, seven days a week, also represents our commitment to customer service.

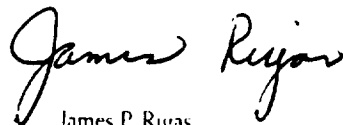
## SUMMARY

Hyperion's significant progress can be primarily attributed to the dedication of our valued employees. Totalling more than 700 today, the company plans to double its workforce over the next year. We have successfully attracted excellent talent to our growing team, and have every confidence that our employees will continue to meet the challenges ahead. The entire Hyperion team looks forward to building on our success in the coming year and continuing to provide value to our customers and shareholders.

Thank you to our customers, shareholders and employees for your support.



Daniel R. Milliard  
President and Chief Operating Officer



James P. Rigas  
Chief Executive Officer



**DOCKET NO. 98-00732**

**Hyperion Communications of Tennessee, L.P. - Responses to David Hood's Oral Data  
Requests of May 13, 1999**

**EXHIBIT 3**

**FINANCIAL PROJECTION FOR HYPERION TELECOMMUNICATIONS, INC.  
PREPARED BY CREDIT SUISSE FIRST BOSTON CORPORATION**

**High Yield Research—Americas**

Industry: Telecommunications

June 29, 1998

Code T2CLECS

Mark H. Rose 212/325-2413 mark.rose@csfb.com

## Hyperion (HYPT)

### Re-initiating coverage.

**Recommendation:**

*We recommend buying Hyperion's Senior Discount Notes and Preferred. As the company aggressively adds access lines and grows revenues over the next 12 months, we think that both securities should tighten by a minimum of 100-150 bp over the treasury curve. In addition, we think that Hyperion distinguishes itself among other facility based CLECs with its modest leverage in comparison to the group (see our comparison table on page 4).*

Coupon	Description	Maturity	Out Amt. (MM)	Rating	First Call		Recent		
					Date	Price	Price	YTW	Spread
13.000%	Sr. Disc. Nts.	04/15/03	\$329.0	B3	04/15/01	106.50	74.50	11.39	+588
12.250%	Sr. Sec. Nts.	03/15/04	\$250.0	B3	09/01/01	106.13	109.00	9.97	+448
12.875%	Sr. Exch PIK Pfd	10/15/07	\$200.0	CC1	10/15/02	106.44	106.00	11.98	+650
LTM Rev.(1)	LTM EBITDA(1)	Margin	EBITDA/ Interest	Debt/ EBITDA	Cash	Debt + Pfd	PPE(1)	EQTY	
\$17.5mm	(\$4.96mm)	NA	NA	NA	\$503mm	\$724mm	\$336mm	\$929mm	

(1) Numbers reflect the weighted ownership performance for each of Hyperion's separate networks.

**Key Points: Growth,  
low cost network, and  
on-net customers!**

- Hyperion is a second tier CLEC that has shifted from its network build-out focus that it maintained as a private company to a rapid growth agenda with plans to add over 135,000 access lines in its Fiscal 1999. We forecast revenues to grow from \$17.5 million in its FY 1998, which ended March 31<sup>st</sup>, to \$81 million in FY 1999.
- Over 70% of Hyperion's access lines are totally on-net, which is ahead of all other CLECs. Attributing to the high on-net concentration of traffic is its 22 networks that connect to 113 local service offices (LSOs), which is over 5 LSOs per market. Most CLECs connect to approximately 2-3 LSOs per market. On-net lines are the most profitable, and because Hyperion has such a high concentration of on-net lines, its mid-50% gross margin is one of the highest in the CLEC sector.
- Hyperion has \$336 million in property, plant, and equipment (PP&E). GST Communications and e.spire, the two most comparable CLECs, have \$470 million and \$336 million in PP&E, respectively. But, Hyperion has only \$211 million in net debt and preferred, and e.spire and GST have \$312 million and \$512 million, respectively. Hyperion has partnered with cable or utility companies in the build-out of most of its networks, which has allowed it to minimize capital spending per network and gain from its partners' owned conduits.
- We estimate that Hyperion will need to raise a net \$420 million over the next five years to execute its business plan. With over \$500 million in cash and restricted securities, the company is nearly funded for the next two years.

**Bond Analysis**

*We think that the Hyperion 13% Senior Discount Notes and PIK Preferred should provide the most favorable yields for investors. Over the next twelve months, we think that these securities should tighten 100-150 bp over the treasury curve at a minimum. When comparing Hyperion's PIK Preferred to other securities of weaker credits (see the Tables 1 and 2), we think that they should trade through the following:*

- *GST 12¾% Senior Subordinate Accrual Notes, which have over \$900 million in the capital structure above of it and a \$648 million market cap below. HYPT's PIK Preferred has \$550m above it and a \$937 million market cap below. Currently, Hyperion's PIK Preferred trades +43 bp behind the GST 12¾% notes.*
- *Several third tier CLECs, such as Focal, Allegiance, and MGC Communications have bonds which trade within 100 basis points or tighter of Hyperion's PIK Preferred and Senior Discount Notes. Each is in a much earlier stage than Hyperion with weaker facilities underneath the bonds as well.*
- *From a potential take-out perspective, we think facility based second tier CLECs with over \$300 million in PP&E and a rapidly growing customer base present a very appealing target to predator telcos. For this reason, we think that the preferred securities of second tier CLECs should trade at least 100 bp ahead of the bonds of weaker facility based third tier CLECs.*

**Comparison  
of the credit**

In Table 1, we present a comparison analysis of several facility based CLECs. We include several historical statistics along with our calendar 1998 estimates. In our analysis, we have ranked all of the companies in several categories related to growth, profitability, and asset coverage. All ranks are averaged to output a score for each company (low is best). Our method is not perfect, and we do not suggest drawing any hard conclusions from the scores, but we think this system is a useful tool for making comparisons. Currently, we are recommending many of the securities of both Hyperion and e.spire, and this analysis presents many reasons supporting our recommendations.

We tend to sub-group the CLECs into one of two types of strategies, regional or nationwide focus. Hyperion is most directly comparable to GST Communications and e.spire Communications, early stage CLECs with regional focused strategies. e.spire rated the best in this group of three with a score of 2.8 followed by Hyperion's score of 3.6.

Both e.spire and Hyperion scored well with strong internal growth. e.spire achieved favorable score with its ratios of quarterly annualized revenues to (net debt + pfd) and to property plant and equipment (PP&E). This is an indicator that e.spire is successfully generating revenue momentum from its asset - the network. We look for Hyperion to improve in the revenue-related ratios over the next four quarters because its priority focus has shifted to customer growth.

Hyperion scored at the top of the entire group in the ratio of (net debt + pfd) to gross PP&E which supports the theme that Hyperion has built its network very efficiently when compared to other CLECs. Hyperion is also attractive as the

least leveraged CLEC in the group as shown by the ratio of (net debt+pdf)/enterprise value.

Below, in Table 1a, we feature five of the six CLECs from our comp sheet. We have created a rank to spread ratio for each company. The rank is from Table 1, and the spreads are from respective senior discount notes in Table 2. This ratio is a measurement of how a CLEC's relative operating statistics are reflected in its bond prices. Again, we do not rely on this measurement as a sole driving factor to our recommendations, but we do think that it is a useful tool. A CLEC with a low ratio may not be receiving full credit for its operational performance in comparison to its peers. The CLEC credit may be undervalued, or investors may have some negative expectations related to the company. *In the case of Hyperion and e.spire, we think that the credits are undervalued.*

**Table 1a**  
**Rank/Spread analysis**

	Hyperion	GST	e.spire	WinStar	ICG Comm.
Rank	3.6	4.0	2.8	3.9	2.4
YTW	11.39%	11.22%	10.42%	10.68%	9.63%
Spread	+588	+573	+493	+519	+403
<b>Rank/Spread</b>	<b>6.05</b>	<b>6.98</b>	<b>5.63</b>	<b>7.49</b>	<b>6.07</b>

Source: Credit Suisse First Boston High Yield Research.

The market perceives the nationwide CLECs featured in Table 1 in a much different way. Nextlink and WinStar, whose strategies are to penetrate the top cities across the U.S., have the greatest amount of EBITDA losses in the near-term forecast of all the CLECs in Table 1. While the near-term expectations for NextLINK and WinStar are for large losses, the long-term expectations are much higher for these nationwide focused CLECs as shown in the high enterprise values and rank/spread ratios given to them by the markets. WCII and NXLK also score a similar amount in our rating system (around 4.0).

Also note that the regional CLECs tend to be less leveraged with net debt and preferred and have lower EBITDA losses. ICG Communications scored at the top of our rating system with a 2.4 rating (lower – being better). Considering ICG Communications is the most mature CLEC in this group, we think that it is appropriately scoring ahead of the other emerging CLECs.

**Table 1**  
**Comparison of CLEC credits**  
*\$ in Millions*

	Hyperion	GST	e.spire	NextLINK	WinStar	ICG Comm.	Total
<b>Revenues</b>							
1997	14.0	89.0	59.0	57.6	79.6	434.0	719
1998E	52.0	190.0	150.0	132.8	272.0	570.4	1,315
growth	271%	113%	154%	131%	242%	31%	83%
Q1/98	6.0	29.0	27.5	26.5	47.4	125.7	256
Internal q1q growth	22.0%	4.8%	18.6%	17.8%	30.0%	6.2%	
Q1:98 rank	2	6	3	4	7	5	
<b>EBITDA</b>							
1997	(13.2)	(50.2)	(53.7)	(75.4)	(158.3)	(124.3)	(482)
1998E	(24.1)	(43.2)	(31.8)	(153.8)	(191.2)	(32.7)	(453)
growth	-82%	14%	41%	-104%	-21%	74%	2%
Q1/98	(4.5)	(14.8)	(11.6)	(29.9)	(49.0)	(25.7)	(131)
<b>CAPEX</b>							
1997	120.0	215	130	210.5	220	286.2	1,062
1998E	205.0	240	160	400.0	300	441.3	1,541
growth	71%	12%	23%	90%	36%	54%	45%
Q1/98	46.0	41.8	54.0	51.6	30.0	72.3	250
<b>Gross PP&amp;E</b>							
1997	228.0	433.0	250.0	364.8	880.0	861.0	2,789
1998E	450.0	670.0	430.0	786.1	1,180.0	1,160.1	4,226
growth	97%	55%	72%	116%	34%	35%	52%
Q1/98	337	470	336	411	910	904	3,031
% of total	11.1%	15.5%	11.1%	13.6%	30.0%	29.8%	
<b>Net debt+redeemable pfd</b>							
1997	362.9	548.0	369.0	273.1	611.0	708.2	2,509
1998E	440.0	801.6	522.0	998.5	1,339.0	989.7	4,651
growth	21%	46%	41%	266%	119%	40%	85%
Q1/98	211.0	512.0	312.0	474.5	799.0	806.2	2,904
% total of group	7%	18%	11%	16%	28%	28%	
<b>Market Cap</b>							
Shares (in millions)	56.8	44.7	66.0	54.0	37.2	57.8	
Price	16.5	14.5	19.8	34.6	42.5	35.6	
Market cap	937	648	1,304	1,870	1,582	2,059	7,462
% total of group	13%	9%	17%	25%	21%	28%	
Recent enterprise value (EV)	1,147.5	1,160.4	1,615.5	2,344.3	2,380.7	2,865.3	10,366
	11%	11%	16%	23%	23%	28%	
<b>Lines</b>							
Total installed	23,120	44,846	57,653	72,834	145,000	186,156	506,489
% of total group	5%	9%	11%	14%	29%	37%	
Sequential growth	97%	55%	64%	41.7%	50%	48.6%	
Reported rev/line/mnth	\$65	\$51	\$50	\$55	\$51	\$57	
Entirely on-net (as of March '98)	81%	53%	19%	19%	15%	30%	
Unbundled-hybrid	5%	42%	36%	75%	15%	24%	
Total service resale	14%	5%	45%	6%	70%	46%	
(On-net) Q1/98 rank	1	2	4	3	6	5	
<b>Operating ratios</b>							
QRA/(ND+Pfd)	11%	23%	35%	22%	24%	62%	
rank	6	4	2	5	3	1	
QRA/PPE	7%	25%	33%	26%	21%	56%	
rank	6	4	2	3	5	1	
QRA/1997 CAPEX	20%	54%	35%	50%	86%	176%	
rank	6	4	3	5	2	1	
QRA/Installed lines	1,370.42	2,586.63	1,907.37	1,455.36	1,307.59	2,700.96	
rank	5	2	3	4	6	1	
QELA/QRA	-74%	-51%	-42%	-113%	-103%	-20%	
rank	4	3	2	6	5	1	
(Net debt+pfid)/EV	18.4%	44.1%	19.3%	20.2%	33.6%	28.1%	
rank	1	6	2	3	5	4	
(Net debt+pfid)/Gr PPE	0.63x	1.09x	0.93x	1.15x	0.88x	0.89x	
rank	1	5	4	6	2	3	
Score (low is good)	3.6	4.0	2.8	4.3	3.9	2.4	
Target markets	Tier 2 and tier 3	Tier 2 and strategic tier 1	Tier 2 and strategic tier 1	Tier 1 and Tier 2	Tier one	Tier 2 and some Tier 1	
Primary geographies	Eastcoast	Western U.S.	Mid-Southern	Nationwide	Nationwide	4 Regional Clusters	

**Unique abbreviations**

QRA - Quarterly revenues annualized

QELA - Quarterly EBITDA losses annualized

Note: An estimated value for spectrum was added to WinStar's and NextLINK's PP&amp;E.

Estimates for Nextlink and ICG Communications are from Credit Suisse First Boston's equity research analyst Frank Gornali.

Source: Credit Suisse First Boston High Yield Research unless noted.

Table 2  
Selective CLEC securities

Ticker	Security	Size	Rating	Price	YTW	Spread
Nextlink	12 1/2% Sr Nts due 4/15/06	\$350	NR	114.00	8.75%	+324
NXLK	9 5/8% Sr Nts due 10/1/07	\$400	NR	103.00	9.05%	+356
	14% Exch PIK Pfd due 2/1/09	\$285	NR	60.00	11.17%	
Winstar	12 1/2% Sr Secured Nts due 3/15/04	\$250	B3/CCC+	112.00	9.70%	+421
WCII	14% Sr. Disc Nts due 10/15/05	\$294	NR/CCC+	83.38	10.68%	+519
	14 1/2% Sr Accretion Nts due 10/15/05	\$100	NR/CCC+	138.25	11.03%	+556
	10% Sr Sub Nts due 3/15/08	\$200	NR/NR	99.25	10.12%	+466
	11% Sr Sub Accretion Nts due 3/15/08	\$250	NR/NR	99.25	11.44%	+598
	15% Sr Subordinate Accretion due 3/1/07	\$100	NR/NR	132.00	11.64%	+618
	14 1/4% PIK Pfd due 12/15/07	\$175	NR/NR	122.00	12.48%	+701
RCN	10% Sr Notes due 10/15/07	\$225	B3/NR	102.63	9.49%	+401
RCNC	11 1/8% Sr Disc Notes due 10/15/07	\$601	NR	64.00	10.85%	+537
	9.8% Sr Disc Nts due 2/15/08	\$567	B3/NR			
Hyperion	13% Sr Disc Nts due 4/03	\$329	NR	74.50	11.39%	+588
HYPER	12 1/4% Sr Notes due 9/1/04 (3 yr guar)	\$250	NR	109.00	9.97%	+448
	Exch PIK Pfd due 10/07	\$200	NR	106.00	11.98%	+650
GST	13 1/4% GST Equip Sr Nts due 05/01/07	\$265	NR	115.00	9.81%	+432
	13 7/8% Sr Disc Nts due 12/15/05	\$351	NR	80.00	11.22%	+573
	10 1/2% Sr Disc Nts due 5/1/08	\$500	NR	60.00	10.69%	+523
	12 3/4% Accrual Notes due 11/15/07	\$125	NR	116.00	11.53%	+607
ICG	13 1/2% Sr Disc Nts due 9/15/05	\$584	NR			
ICGX	12 1/2% Sr Disc Nts due 5/1/06	\$550	NR	79.50	9.63%	+403
	10% Sr Disc Nts due 2/15/08	\$490	NR	61.00	10.45%	+487
	9 7/8% Sr Disc Nts due 5/1/08	\$405	NR	60.00	10.33%	+476
	11 5/8% Sr Disc Nts due 3/15/07	\$176	NR			
	14 1/4% Exch PIK Pfd due 5/01/07	\$150	NR			
	14% Exch PIK Pfd due 3/15/08	\$100	NR			
E.Spire	13% Sr Disc Nts due 11/1/05	\$190	NR	84.00	10.42%	+493
ESPI	12 3/4% Sr Disc Nts due 4/1/06	\$120	NR	81.00	10.12%	+461
	13 3/4% Sr Nts due 7/15/07	\$220		116.00	10.23%	+473
	12 3/4% PIK Pfd due 10/09	\$150	NR	113.00	11.98%	+651
	14 3/4% Pfd due 7/15/08	\$60	NR			
Teligent	11 1/2% Sr. Nts. due 12/1/7	\$300	Caa1/CCC	102.00	11.09%	+562
TGNT	0/11 1/2% Sr. Disc Nts due 3/1/8	\$440	NA/NA	55.00	12.43%	+697
KMC	12 1/2% Sr Disc Nts due 2/15/08	\$461	NR/NR	59.00	12.01%	+654
Adv Radio	14% Sr Nts due 2/15/07	\$135	Caa2/CCC+	108.00	12.20%	+671
ARTT						
Knology	11 7/8% Sr Disc Nts due 10/15/07	\$444	NR/NR	59.00	12.30%	+683
KNOLOG						
Allegiance	11 3/4% Sr. Disc. Nts. due 2/15/8	\$445	NA/NA	55.00	12.62%	+715
Focal	12 1/8% Sr. Disc. Nts. due 2/15/8	\$270	NA/NA	60.50	11.51%	+603
21st Cent	12 1/4% Sr. Disc. Nts. due 2/15/8	\$200	Caa2/NR	56.13	12.60%	+713
CENTEL	13.75% PIK Pfd due 2/15/10	\$50	Caa/NR	109.50	12.74%	+726
MGC	13% Sr Nts due 10/1/04	\$160	Caa2/NR	102.00	12.46%	+696
MGCCOM						

Source: Credit Suisse First Boston High Yield Research

**Key points to earnings announcement and conference call:**

Hyperion has the highest concentration of on-net access lines of any CLEC. Reported line mix as of mid-June:

70% On-net

5% On-switch using unbundled network elements (UNE)

25% Resale

On net has declined in the past two quarters because the company is now selling into markets that it has not finished building its network. Hyperion should transfer most of its resold lines to on-net facilities as its networks are completed. Hyperion has 17 switches connecting customers and should turn-up three more switches in the near-term. We do not expect the on-net mix to drop below 65%. This is because Hyperion has penetrated more central offices (COs) (which is where customer lines connect to the ILEC's switch) per market than any other CLEC. Hyperion connects to 113 COs in 22 markets or over 5 per market and most CLECs have a ratio of 2-3 COs per market.

Total "proportionate" revenues for the quarter were \$6.02 million, up 22% sequentially. Estimates for the June quarter are around \$7.9 million for Hyperion's revenues, and the company indicated that it was on track to exceed this amount. For the fiscal 1998-year, revenues reached \$17.5 million up 125% over the prior year. We forecast \$81 million in total revenues for Hyperion in FY 1999.

We think the most important news of the earnings release was installed lines increased from April 1 through mid-June 1998 by 19,000 lines. We expect the company to install over 20,000 lines in the June quarter. This is ahead of current street expectations. Hyperion has nearly doubled its total lines installed for four quarters in a row, which includes the June quarter ending next week. This is the number one indicator that gives us confidence that Hyperion should continue its aggressive ramp-up of revenues. Management said that they were very comfortable with the consensus forecast of 28,000 and 39,000 lines installed in the September and December quarters, respectively. For the entire FY 1999, we estimate that Hyperion will add 137,000 lines.

Hyperion revealed that several markets are EBITDA positive. A few of the markets mentioned include Buffalo, Vermont, Charlottesville, and Wichita. The consolidated operating companies' revenue and EBITDA loss for the March quarter were \$9.0 million and (\$2.5 million), respectively. Hyperion's proportionate share of revenues and EBITDA losses were \$6.0 million and (\$4.5 million), respectively. The greater EBITDA loss by Hyperion versus its operating companies is due to corporate overhead accounted at the parent company and some of the EBITDA positive markets being only partially owned by Hyperion. The company said on its call that it would increase its stake in several markets to gain ownership of at least 80%+ of all the networks. **This would be a positive event if Hyperion increases its ownership in one of the EBITDA positive markets.** In Table 4, we present the historical and operational performance of the Hyperion operating clusters.

The company is executing several projects to speed revenue generation and improve margins such as improving its back office computer systems, network

management and line provisioning capabilities, and purchasing long haul dark fiber to interconnect its networks. It is favorable to hear of these projects taking place in the early stage of Hyperion's growth because lack of adequate growth preparation has delayed other CLECs in the past. It gives us further confidence in the credit and its ability to hit our aggressive expectations.

Hyperion's sales force has grown from 35 to 155 over the past 14 months, and they are hiring approximately 10-15 new personnel per month. We expect them to reach 280 sales personnel by the end of Fiscal 1999. This is the infrastructure that the company needs as it approaches the 50,000 plus lines per quarter level of growth that we think it can achieve over the next twelve months.

## Overview

Hyperion Telecommunications, Inc. is a 66% owned subsidiary of Adelphia Communications. Hyperion has 22 networks, including 4 still under construction, in partnership with local cable companies and electric utilities networks throughout the East Coast and South (see operating companies statistics in Table 4). Over the next 18 months, we expect Hyperion to expand its switched networks reaching 29 markets, 210 central offices with 8,100 route miles.

Hyperion has constructed its networks with local partners to minimize capital spending on build-out and gain from synergies such as utility owned conduit. Generally, Hyperion has bought out its local partners after the networks were completed. As a rule of thumb, Hyperion usually tries to pay 1.5x PP&E in cash or common stock when consolidating its ownership of specific networks. Hyperion today owns 76% of the operating networks that it has invested and management has expressed plans to increase its ownership to around 85% over the next year.

Hyperion Telecommunications currently offers switched-based local telephone service in 22 markets. It also offers other services such as frame relay (data), Internet access, video conferencing, and direct access to long distance networks. Hyperion recently began offering long distance to its customers (resale) at the end of 1997. Its targeted customers include small, medium and large businesses, governments, and major long distance companies.

Leading Hyperion is John J. Rigas as the Chairman and Director of Hyperion. He is the founder and Chief Executive of Adelphia. He has an extensive background in the cable industry where he has owned and operated cable systems since 1952. His sons, James, Michael, and Timothy are the CEO, Vice Chairman, and CFO, respectively. Daniel Milliard is the Chief Operating Officer of Hyperion and is totally dedicated to the day to day execution of the Hyperion business plan. Dan has over fifteen years with Adelphia and a legal background, which is very applicable in running a company competing in a regulatory intensive industry.

Over the past four quarters, Hyperion has focused mainly on building its networks, installing switches, and establishing a Network Operating and Control Center. Throughout this build-out phase customer growth has remained modest, but Hyperion has maintained very minimal EBITDA losses as well. We expect the priorities to shift for the company from adding networks to growing customers and revenues while still maintaining EBITDA losses at a low level. In the future, we expect Wall Street to judge the company by these growth metrics.

**Financials**

In Table 3, we present our EBITDA and FCF model for Hyperion. We are using non-GAAP proportionate share accounting to best represent Hyperion's performance for investors. Hyperion owns 76% of all its networks, but our revenues and expenses in the model reflect the weighted ownership performance for each of Hyperion's separate markets. That is why Hyperion's revenues are not simply 76% of its operating companies' revenues, which are shown in Table 4.

We expect Hyperion to grow its revenues aggressively for the next five years. Local service revenues are expected to surpass dedicated access revenues by the 2<sup>nd</sup> quarter of FY 1999 and account for a major portion of Hyperion's forecast growth. Local services is currently 27% of total sales, but we expect it to make-up over 70% of Hyperion's revenues by March of 2001. The growth of local services carried on Hyperion's network is key for the company to reach profitability.

In the near-term, we expect Hyperion's gross margin to decline or remain flat with the 56% achieved in the March 1998 quarter. Hyperion is rapidly expanding its access lines in all built-out markets and a few markets where network construction is not completed. The lines in newer unfinished markets are being resold through the incumbent telcos, which is a much lower gross margin than on-net customers. By March of 1999, we expect Hyperion's gross margin to have bottomed out and should start expanding toward the 60% range in FY 2000. The shifts in Hyperion's gross margin are driven by the mix of resale lines as a percent of total lines. By March of 1999, Hyperion's on-net lines will be a substantial base, so new temporary resold lines will effect the gross margin much less in the out years.

We expect Hyperion's sales, general and administrative (SG&A) expenses to continue to grow rapidly in FY 1999 but at a slower rate than revenues. EBITDA losses for FY 1999 are expected to be lower as a percent of revenues than in FY 1998. We expect Hyperion to hit its first EBITDA positive quarter by the end of FY 1999 (March of 2000).

Currently, Hyperion has \$500 million in cash when including its restricted securities and the recent equity offering by the company. This nearly funds the company's plan through March of 2000. We estimate that the company's operations and capital expenditures should require \$460 million over the next two years and its cash interest payments total another \$75 million for the same time period. Because of the \$25 million difference between cash on hand and levered FCF, we expect the company to return to the high yield market or initiate a bank line in FY 2000.

For our five-year forecast, we estimate that the company will require a net funding of \$420 million through March of 2004. Both of the company's high yield bonds are due in FY 2004, so it will need to raise additional capital in that year. When the company faces this capital-raising requirement, it should have much more favorable credit ratios as shown in our model.

Hyperion

Table 3  
Hyperion's Proportionate EBITDA and FCF analysis

\$ in Millions	30-Jun Q1/98	30-Sep Q2/98	31-Dec Q3/98	31-Mar Q4/98	Mar-98 FY98	30-Jun Q1/99	30-Sep Q2/99	31-Dec Q3/99	31-Mar Q4/99	Mar-99 FY99	Mar-00 FY00	Mar-01 FY01	Mar-02 FY02	Mar-03 FY03	Mar-04 FY04
Local Service revenues	0.12	0.27	1.03	1.60	3.02	2.47	6.58	13.16	18.91	41.12	170.11	338.00	514.27	678.64	841.69
Growth seq/ty		120%	286%	55%		54%	167%	100%	44%	1261%	314%	99%	52%	72%	32%
% of sales	4%	7%	21%	27%	17%	31%	47%	55%	53%	50%	67%	71%	72%	72%	24%
Long distance				0.20	0.20	0.31	0.92	1.97	2.95	6.16	30.64	60.89	105.88	139.72	194.95
Growth seq/ty		0%	0%	3%	1%	54%	200%	113%	50%	2978%	398%	99%	74%	32%	40%
% of sales	0%	0%	0%	3%	1%	4%	7%	8%	8%	8%	12%	13%	15%	15%	17%
Dedicated Access Revenues	2.68	3.48	3.90	4.22	14.28	5.18	6.39	8.99	14.00	34.56	53.60	75.70	98.70	120.23	142.92
Growth seq/ty		30%	12%	8%	23%	23%	23%	41%	56%	142%	55%	41%	30%	22%	19%
% of sales	96%	93%	79%	70%	82%	65%	46%	37%	39%	42%	21%	16%	14%	13%	12%
Total Revenues	2.80	3.74	4.93	6.02	17.50	7.96	13.90	24.11	35.87	81.84	254.35	474.59	718.84	938.58	1,179.57
Growth seq/ty		34%	32%	22%	125%	32%	75%	74%	49%	368%	211%	87%	51%	31%	26%
Network operations	1.72	2.03	2.72	2.65	9.12	3.66	6.25	10.61	15.48	36.01	101.74	175.60	265.97	347.28	436.44
Gross margin	38%	46%	45%	56%	48%	54%	55%	56%	57%	56%	60%	63%	63%	63%	63%
SG&A	4.54	5.35	5.92	7.86	23.66	9.95	14.59	20.50	27.39	72.43	147.52	246.79	309.10	333.43	387.96
% of sales	162%	143%	120%	130%	135%	125%	105%	85%	76%	89%	58%	52%	43%	36%	33%
Depreciation & amortization	3.77	5.38	5.98	7.31	22.43	9.40	9.40	11.00	12.50	42.30	55.66	75.91	95.26	113.48	131.48
% of sales	135%	144%	121%	121%	128%	118%	68%	46%	35%	52%	22%	16%	13%	12%	11%
Operating Income	(7.23)	(9.01)	(9.69)	(11.79)	(37.72)	(15.05)	(16.35)	(17.99)	(19.50)	(68.90)	(50.57)	(23.70)	48.51	144.40	223.69
EBITDA	(3.46)	(3.63)	(3.71)	(4.48)	(15.28)	(5.65)	(6.95)	(6.99)	(7.00)	(26.60)	(22.50)	52.21	143.77	257.88	355.17
EBITDA margin											2%	11%	20%	27%	30%
EBITDA	(3.5)	(3.6)	(3.7)	(4.5)	(15.3)	(5.7)	(6.9)	(7.0)	(7.0)	(26.6)	(22.50)	52.2	143.8	257.9	355.2
Interest Expense	(7.4)	(10.5)	(16.4)	(16.6)	(50.9)	(15.4)	(15.7)	(15.9)	(16.2)	(63.2)	(76.7)	(83.2)	(125.2)	(122.1)	(98.5)
Non-Cash Interest Expense	6.3	6.5	6.7	6.9	26.4	7.1	7.4	7.6	7.8	30.0	34.0	38.5	4.0	0.5	-
Cash Interest	(1.1)	(4.0)	(9.7)	(9.7)	(24.5)	(8.3)	(8.3)	(8.3)	(8.3)	(33.2)	(42.7)	(44.6)	(121.2)	(121.6)	(98.5)
Interest Income	0.8	1.5	5.7	5.3	13.3	3.5	3.7	2.8	2.8	12.7	11.0	8.0	7.0	3.0	2.5
Dividends	-	-	(4.2)	(6.5)	(10.7)	(6.7)	(6.9)	(7.1)	(7.3)	(28.0)	(31.7)	(35.9)	(40.7)	(46.2)	(48.1)
Non-cash dividends paid	-	-	4.2	6.5	10.7	6.7	6.9	7.1	7.3	28.0	31.7	35.9	40.7	46.2	48.1
Cash dividends paid	-	-	-	-	(132.9)	(52.0)	(50.0)	(55.0)	(45.0)	(202.0)	(225.0)	(220.0)	(200.0)	(20.0)	(48.1)
Capex	(37.3)	(19.1)	(24.6)	(51.9)	(66.0)	(6.0)	(10.0)	-	-	(10.0)	-	-	-	-	(175.0)
Acquisitions/Sale of subs	-	(7.6)	-	(58.3)	21.8	-	-	-	-	(6.0)	-	-	-	-	-
Working capital/other	1.9	11.0	4.0	4.9	-	-	-	-	-	-	-	-	-	-	-
FCF	(39.2)	(21.8)	(28.3)	(114.3)	(203.6)	(68.5)	(71.6)	(67.6)	(57.6)	(265.1)	(251.6)	(204.4)	(170.4)	(55.8)	36.1
Cash at beginning of Period	59.8	21.3	237.7	417.9	59.8	301.3	434.8	363.3	295.7	301.3	238.2	186.5	132.1	61.7	6.0
Capital Raised/(retired) net	0.7	238.2	208.4	(2.3)	445.0	202.0	-	-	-	202.0	200.0	150.0	100.0	-	(30.0)
Reported Cash at end of period	21.3	237.7	417.9	301.3	301.3	434.8	363.3	295.7	238.2	238.2	186.5	132.1	61.7	6.0	12.1
Gross PP&E (in millions)				336	336	395	450	500	530	530	730	925	1,125	1,300	1,450

Source: Credit Suisse First Boston High Yield Research.

## Hyperion

Table 3 Con't.  
Hyperion's Proportionate EBITDA and FCF analysis

\$ in Millions	30-Jun Q1/98	30-Sep Q2/98	31-Dec Q3/98	31-Mar Q4/98	Mar-98 FY98	30-Jun Q1/99E	30-Sep Q2/99E	31-Dec Q3/99E	31-Mar Q4/99E	Mar-99 FY99E	Mar-00 FY00E	Mar-01 FY01E	Mar-02 FY02E	Mar-03 FY03E	Mar-04 FY04E
Capital Structure (\$ in millions)															
Debt Issues:															
13% Sr. Disc. Notes due 04/03	203	210	216	223	223	230	238	245	253	253	287	326	329	329	
12.25% Sr. Secured Nts due 03/04		250	250	250	250	250	250	250	250	250	250	250	250	250	
Other Debt/Capitalized Leases	28	38	64	64	64	27	27	27	27	27	27	27	127	127	127
Additional Issues															
Total Debt	231	498	530	537	537	507	515	522	530	530	764	953	1,056	1,056	1,027
Net Debt	210	260	112	235	235	72	151	227	292	292	578	821	994	1,050	1,015
Redeemable Preferred Stock						217	224	231	239	239	270	306	347	373	373
Common shares in millions						57	57	58	59	59	60	62	64	66	68
Price						16	17	18	19	20	25	28	29	32	34
Market Cap						932	988	1,048	1,111	1,170	1,507	1,707	1,854	2,108	2,307
Enterprise Value						1,221	1,364	1,506	1,642	1,701	2,355	2,834	3,196	3,531	3,695

## Ratios

EBITDA/Interest (EBITDA-Capex)/Cash Interest											0.1x	0.6x	1.1x	2.1x	3.6x
Net debt/EBITDA											113.5x	15.7x	6.9x	4.1x	1.8x
(Net debt+pld)/EV											36%	40%	42%	40%	38%
Gross PP&E/net debt						24%	28%	30%	32%	31%	1.3x	1.1x	1.1x	1.2x	1.4x
Enterprise Value/Gross PP&E						4.6x	2.6x	2.0x	1.7x	1.8x	3.2x	3.1x	2.8x	2.7x	2.5x
						3.6x	3.5x	3.3x	3.3x	3.2x					

Source: Credit Suisse First Boston High Yield Research.

**Table 4**  
**Hyperion Operating Clusters**

(\$ in Millions) (Fiscal Year ends March 31)	Mar-97 FY97	30-Jun Q1/98	30-Sep Q2/98	31-Dec Q3/98	31-Mar Q4/98	Mar-98 FY98
<b>Northeast - Buffalo, Syracuse, Vermont, Albany</b>						
Revenues	5.55	1.53	2.07	2.39	2.50	8.48
Percent of total	36%	29%	33%	31%	28%	30%
EBITDA	0.59	(0.46)	0.23	0.14	(0.05)	(0.14)
Capex	28.65	5.20	3.99	9.59	7.84	26.61
Percent of total	22%	11%	16%	20%	14%	15%
Gross PPE				71.61	88.06	
Percent of total				18%	20%	
<b>Operating Statistics</b>						
Networks in operation			3	3		
Access lines sold			4,426	6,054		
Percent of total			28%	22%		
Access lines installed			1,584	2,723		
Percent of total			29%	23%		
Route Miles	1,126	1,128	916	1,285	1,530	
Fiber Miles	54,060	54,156	43,958	53,947	65,712	
Buildings Connected	336	366	325	334	356	
LEC-CO allocated		14	12	12	14	
VGEs	122,472	132,288	116,256	155,904	177,048	
<b>Mid-Atlantic - Charlottesville, Va, Harrisburg, Morristown, New Brunswick, Philadelphia, Richmond, Scranton/Wilkes-Barre, York, "ABER" (additional networks should be built with Allegheny Energy in portions of Maryland, Ohio, Pennsylvania, Virginia, and West Virginia...as announced on Dec 1, 1997)</b>						
Revenues	2.23	1.19	1.51	2.38	2.90	7.98
Percent of total	15%	22%	24%	31%	32%	28%
EBITDA	(3.68)	(1.16)	(1.99)	(2.34)	(1.32)	(6.81)
Capex	67.89	21.00	6.91	15.33	21.30	64.54
Percent of total	53%	43%	28%	32%	39%	37%
Gross PPE				132.25	186.83	
Percent of total				33%	42%	
<b>Operating Statistics</b>						
Networks in operation			7	7		
Access lines sold			5,375	15,042		
Percent of total			34%	54%		
Access lines installed			1,435	4,812		
Percent of total			26%	41%		
Route Miles	1,093	1,248	1,293	1,330	1,914	
Fiber Miles	52,455	59,885	62,057	63,858	91,872	
Buildings Connected	370	457	518	576	613	
LEC-CO allocated		59	59	59	61	
VGEs	144,792	170,304	178,896	367,560	434,832	

Note: Hyperion owns approximately 76% of the total combined operating clusters

Source: Credit Suisse First Boston High Yield Research

Table 4 con't.  
Hyperion Operating Clusters

\$ in Millions	Mar-97 FY97	30-Jun Q1/98	30-Sep Q2/98	31-Dec Q3/98	31-Mar Q4/98	Mar-98 FY98
<b>Mid-South - Lexington, KY, Louisville, KY, Nashville, TN, Baton Rouge, LA, Jackson, MS, Little Rock, AR</b>						
Revenues	1.26	0.43	0.52	0.50	1.05	2.51
Percent of total	8%	8%	8%	7%	12%	9%
EBITDA	(0.50)	(0.28)	(0.76)	(1.31)	(1.88)	(4.22)
Capex	19.46	10.26	10.37	20.05	11.30	51.98
Percent of total	15%	21%	41%	42%	21%	29%
Gross PPE				67.38	84.32	
Percent of total				17%	19%	
<b>Operating Statistics</b>						
Networks in operation			3	6		
Access lines sold			1,874	4,444		
Percent of total			12%	16%		
Access lines installed			256	1,299		
Percent of total			5%	11%		
Route Miles	484	506	579	934	1,142	
Fiber Miles	23,232	24,283	27,778	44,844	54,792	
Buildings Connected	229	436	455	516	589	
LEC-CO allocated		17	18	21	21	
VGEs	47,400	64,488	67,080	80,016	136,512	
<b>Other Networks - Jacksonville, FL, Wichita, KS</b>						
Revenues	6.18	2.20	2.18	2.38	2.59	9.35
Percent of total	41%	41%	35%	31%	29%	33%
EBITDA	1.92	0.61	0.64	0.77	0.73	2.75
Capex	12.27	12.63	3.84	2.36	14.39	33.22
Percent of total	10%	26%	15%	5%	26%	19%
Gross PPE				80.17	82.50	
Percent of total				20%	19%	
<b>Operating Statistics</b>						
Networks in operation			2	2		
Access lines sold			2,553	3,246		
Percent of total			17%	12%		
Access lines installed			2,225	2,886		
Percent of total			40%	25%		
Route Miles	758	758	773	777	777	
Fiber Miles	36,384	36,384	37,152	37,296	37,296	
Buildings Connected	335	344	347	350	351	
LEC-CO allocated		16	16	16	17	
VGEs	151,392	164,064	158,496	187,800	247,248	

Note: Hyperion owns approximately 76% of the total combined operating clusters  
Source: Credit Suisse First Boston High Yield Research

Hyperion

Table 4 Con't  
Hyperion Operating Clusters

\$ in Millions (Fiscal Year ends March 31)		Mar-97 FY97	30-Jun Q1/98	30-Sep Q2/98	31-Dec Q3/98	31-Mar Q4/98	Mar-98 FY98	30-Jun Q1/99	30-Sep Q2/99	31-Dec Q3/99	31-Mar Q4/99	Mar-99 FY99
Combined Clusters Performance												
Access lines sold (cumulative)		7,000	11,000	16,000	28,000	41,500	41,500	61,500	90,500	129,500	176,500	176,500
Access lines sold in period			4,000	5,000	12,000	13,500	13,500	20,000	29,000	39,000	47,000	135,000
Growth				25%	140%	13%		48%	45%	34%	21%	
Access lines installed (cumulative)		1,200	2,800	5,500	11,720	23,120	23,120	43,120	71,120	110,120	160,120	160,120
Growth				96%	113%	97%		87%	65%	55%	45%	
Access lines installed in period			1,600	2,700	6,220	11,400	20,320	20,000	28,000	39,000	50,000	137,000
Growth				69%	130%	83%		75%	40%	39%	28%	
Backlog			10,500	16,280	18,380			18,380	19,380	19,380	16,380	6,380.00
Switched Revenues Est.			0.40	0.86	1.65	3.30	6.21	5.99	10.50	16.79	25.44	58.71
Growth seq/ty				115%	92%	100%		81%	75%	60%	52%	845%
Average monthly revenue per line				\$ 69.08	\$ 63.88	\$ 63.15		\$ 60.25	\$ 61.25	\$ 61.75	\$ 62.75	61.50
Long distance resale					1.25							
Growth seq/ty			4.94	5.42	6.00	5.75	22.11	7.06	8.70	12.23	19.06	47.05
Dedicated Access Revenues Est				10%	11%	-4%		23%	23%	41%	56%	113%
Growth seq/ty												
Total Revenues		15.22	5.34	6.28	7.65	9.05	28.32	13.35	20.12	30.99	47.45	111.91
Growth seq/ty		96%	2%	18%	22%	18%	86%	48%	51%	54%	53%	295%
EBITDA		(1.67)	(1.28)	(1.88)	(2.74)	(2.51)	(8.42)	(2.80)	(2.50)	(2.50)	(2.50)	(10.30)
Capex (excluding roll-up spending)		128.27	49.08	25.11	47.34	54.83	176.36	54.00	60.00	65.00	57.00	236.00
Operating Statistics												
Networks in operation												
Route Miles		3,461	3,640	3,561	4,744	5,363	5,363					
Fiber Miles		166,131	174,708	170,945	220,010	249,672	249,672					
Buildings Connected		1,270	1,603	1,645	1,776	1,909	1,909					
LEC-CO allocated		104	106	105	108	113	113					
VGEs		466,056	531,144	520,728	791,280	995,640	995,640					
switches in operation		7	8	13	16	17	17	19	20	23	28	
Gross PPE of networks, NOCC, HQ		237	286	313	402	442	442					
% ownership of all networks			66%	73%	76%	76%	76%					
Hyperion's Gross PPE			190	228	305	336	336					
Employees (Hyperion and operating companies)		261			425							
Salesforce		35		70	104	128	128	158	194	233	272	272

Note: Hyperion owns approximately 76% of the total combined operating clusters.

Source: Credit Suisse First Boston High Yield Research

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